

on behalf of the management of the issuer pursuant to section 14(a) of the Act: *Provided, however,* That in the case of a class of securities in unregistered or bearer form, such statements need be transmitted only to those security holders whose names are known to the issuer.

9. By amending paragraph (e) of § 240.14c-5 to read as follows:

§ 240.14c-5 Filing of information statement.

(e) Notwithstanding the foregoing provisions of this section, any information statement or other material included in a registration statement filed under the Securities Act of 1933 on Form S-14 (§ 239.23 of this chapter) or Form S-15 (§ 239.39 of this chapter) shall be deemed filed both for the purposes of that Act and for the purposes of this section, but separate copies of such material need not be furnished pursuant to this section, nor shall any fee be required under paragraph (a) of this section. However, any additional material used after the effective date of the registration statement on Form S-14 or Form S-15 shall be filed in accordance with this section but separate copies of such material need not be filed as an amendment of such registration statement.

(Secs. 6, 7, 10, 19(a), 48 Stat. 78, 81, 85; secs. 205, 209, 48 Stat. 906, 908; sec. 8, 68 Stat. 685; sec. 1, 79 Stat. 1051; 15 U.S.C. 77f, 77g, 77j, 77s(a); secs. 14(a), 23(a), 48 Stat. 985, 901; sec. 203(a), 49 Stat. 704; sec. 8, 49 Stat. 1379; sec. 5, 78 Stat. 569, 570; sec. 18, 89 Stat. 155; 15 U.S.C. 78n(a), 78w(a); secs. 12(e), 20(a), 49 Stat. 823, 833; 15 U.S.C. 79f, 79t; secs. 20(a), 38(a), 54 Stat. 822, 841; 15 U.S.C. 80a-20(a), 80a-37(a))

Statutory Authority and Findings

The Commission hereby adopts Form S-15 and the foregoing amendments to 17 CFR Parts 201, 229, 230, and 240 pursuant to the Securities Act of 1933, particularly Sections 6, 7, 10 and 19(a) thereof, and pursuant to Sections 14(a) and 23(a) of the Securities Exchange Act of 1934, Sections 12(e) and 20(a) of the Public Utility Holding Company Act of 1935, and Sections 20(a) and 38(a) of the Investment Company Act of 1940.

As required by Section 23(a) of the Exchange Act, the Commission has specifically considered the impact that the new Form and related rule amendments would have on competition and has concluded that they would impose no significant burden on competition not necessary or appropriate in furtherance of the purposes of that Act.

Pursuant to Section 553(d) of the Administrative Procedure Act of 1949 (5 U.S.C. 553), the Commission finds for good cause that the new Form and related Rule amendments may be used and relied upon prior to their effective date by any persons desiring to do so, provided that they comply with all applicable provisions of the Form.

By the Commission.

George A. Fitzsimmons,

Secretary.

September 2, 1980.

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17 CFR Parts 210, 229, 240, and 249

[Release Nos. 33-6233; 34-17116; 35-21699; IC-11325; AS-280]

General Revision of Regulation S-X

AGENCY: Securities and Exchange Commission.

ACTION: Final rules.

SUMMARY: The Commission is adopting a general revision of Articles 3 and 5 and the related sections of Article 12 of Regulation S-X ("S-X"), the regulation which prescribes the form and content of and requirements for financial statements. The changes in the content of S-X (i) eliminate rules which are presently duplicative of generally accepted accounting principles ("GAAP"), (ii) effect changes to recognize predominant current practice and changes in circumstances, (iii) clarify and modify requirements which are presently subject to differing interpretations, and (iv) expand certain requirements to improve financial reporting. These changes have been structured in a manner to facilitate the integration of the Securities Act of 1933 and the Securities Exchange Act of 1934 by attaining uniformity between financial statements included in annual reports to shareholders and those prepared in accordance with S-X.

EFFECTIVE DATE: Effective for companies with fiscal years ended after December 15, 1980. However, upon publication in the Federal Register, earlier implementation is encouraged.

FOR FURTHER INFORMATION CONTACT: Arthur J. Schmeiser, Office of the Chief Accountant, Securities and Exchange Commission, 500 North Capitol Street, Washington, D.C. 20549 (202-272-2133).

SUPPLEMENTARY INFORMATION: In Securities Act Release No. 6178 issued January 15, 1980, the Commission proposed for comment revisions to Articles 3 and 5 and the related sections

of Article 12 of Regulation S-X. The purposes of the proposal were to:

- (i) Eliminate rules which are presently duplicative of generally accepted accounting principles,
- (ii) Effect changes to recognize predominant current practice and changes in circumstances,
- (iii) Clarify and modify requirements which are presently subject to differing interpretations, and
- (iv) Expand certain requirements to improve financial reporting.

These proposed changes were structured in a manner to facilitate the integration of the Securities Act of 1933 and the Securities Exchange Act of 1934 by attaining uniformity between financial statements included in annual reports to shareholders and those prepared in accordance with S-X.

More than 300 letters of comment were received on the proposal. After giving these comments careful consideration, the Commission has determined to adopt the amendments with some revisions which are responsive to the comments. Generally, commentators were in accord with the revisions which related to the first three objectives enumerated above and those revisions have been adopted substantially as proposed. On the other hand, many commentators opposed the last objective, expansion of certain requirements to improve financial reporting, and the proposal to conform the financial statements included in annual reports to shareholders to those prepared in accordance with S-X. Nevertheless, the Commission has determined to adopt the rule which provides for uniformity between financial statements included in annual reports to shareholders and those prepared in accordance with S-X. The proposed expanded disclosure of the components of income tax expense has been withdrawn and the present disclosure requirements have been retained substantially; however, a requirement to disclose domestic and foreign income before income tax expense has been adopted. The present form of the property, plant and equipment schedules has been retained. The proposed property, plant and equipment schedules are being considered further and the issuance of a separate revised proposal is being evaluated. Additionally, certain commentators addressed rules which were proposed to be unchanged from previous S-X requirements and as a result further revisions have been adopted.

Background

General

In 1940, the Securities and Exchange Commission announced the adoption of Accounting Series Release ("ASR") No. 12, "Adoption of Regulation S-X." S-X codified the existing instructions as to the form and content of financial statements included as a part of each of the registration and reporting forms. The regulation did not prescribe accounting methods, but rather stated requirements which were intended to elicit informative disclosures. In 1940, there was little available authoritative accounting literature. Indeed, the predecessor of the American Institute of Certified Public Accountants ("AICPA") only two years earlier had instituted a research program resulting in the publication of accounting principles in the form of Accounting Research Bulletins ("ARBs"). This was the first attempt by the accounting profession to formally promulgate standards. Consequently, the Commission considered it beneficial that S-X included condensed requirements contained in one authoritative source.

Private Sector Initiatives

Since the development of S-X, however, the private sector has established and improved accounting and reporting standards through various organized bodies—the Accounting Principles Board ("APB"), other units of the AICPA and, most recently, the Financial Accounting Standards Board ("FASB"). The Commission indicated support for the FASB in ASR No. 150, which stated that financial statements conforming to standards set by the FASB will be presumed to have substantial authoritative support. Additionally, the Commission has indicated in its reports to Congress on its oversight of the accounting profession that it continues to believe that the initiative for establishing and improving accounting standards should remain in the private sector, subject to Commission oversight.

Need for Revision

Similarly, the Advisory Committee on Corporate Disclosure¹ supported private sector standard setting in its report to the Commission, issued in November 1977, in which it recommended among other things, that:

A continuing goal of the Commission should be the elimination of rules of general

applicability which cause differences between financial statements prepared in accordance with Regulation S-X and those prepared in accordance with GAAP. When the Commission requires an extension of disclosures beyond those required by GAAP because of an emerging problem, the reasons for the extension and the underlying accounting issues involved should be stated. The Commission should then ask the FASB to consider the issue * * * the Commission should undertake the following:

1. Eliminate all financial statement disclosures required by Regulation S-X which duplicate those required in financial statements prepared in accordance with codified GAAP.
2. Critically review all disclosures of general applicability which are supplementary to those required by GAAP with the objective of eliminating disclosures which may not be necessary to users in making investment decisions.

In recent years, the Commission has sought to integrate the registration and reporting requirements under the Securities Act of 1933 and Securities Exchange Act of 1934. The Commission believes integration of the requirements of these two Acts benefits registrants by offering a more coherent reporting structure. In this connection, the Commission has recently undertaken the task of re-examining the present reporting and disclosure system focusing principally on the form, content and use of Form 10-K. This re-examination process resulted in a variety of separate but related projects of which this general revision of S-X is a part.²

The most recent comprehensive revision of S-X was in 1972, which was prior to the issuance by the APB of its last seven opinions and the establishment of the FASB. During the ensuing eight year period, the authoritative accounting literature has expanded dramatically and some of the requirements of S-X are now outdated. Accordingly, this revision was undertaken to respond to that situation.

Role of the FASB

The Commission frequently and unequivocally has voiced its support of the FASB as the leader in the establishment and improvement of accounting principles. A minority of the commentators have stated that certain components of the proposed

amendments to S-X effectively may be pre-empting the activities of the FASB, especially its project to develop a conceptual framework for financial accounting and reporting. Indeed, one of the FASB's concerns about the proposal to require registrants to include financial statements prepared in accordance with S-X in their annual reports to shareholders is:

Possible conflicts with the FASB's conceptual framework projects on reporting earnings, funds flows and liquidity, and financial statements and other means of financial reporting.

Other commentators objected that the proposal regarding the content of financial information in the annual report to shareholders contradicted ASR No. 150 and would undermine the authority of the FASB.

The Commission does not believe that any decision to require particular disclosures or, less likely, a decision to require a particular method of accounting through rulemaking in S-X, conflicts with the basic policy of relying on the FASB for leadership in establishing financial accounting and reporting standards. Furthermore, it believes that the remaining requirements of S-X address those areas where GAAP standards are not explicit and there is a need for an authoritative source for such requirements. While there is, of course, always the possibility that the Commission may conclude it cannot accept an FASB standard in a particular area, such events have been rare. The Commission intends to continue its present policy of carefully re-evaluating its rules as the FASB effectuates changes in financial accounting and reporting standards, and will eliminate those rules which become unnecessary. For example, as standards are issued by the FASB regarding "Funds Flows and Liquidity," "Reporting Earnings" and other phases of the conceptual framework project, the Commission expects it will be able to defer to the requirements of the private sector. The Commission believes that the action which it currently is taking is in harmony with its statement of policy pronounced in ASR No. 150.

Uniformity

The financial statements filed with the Commission frequently have been somewhat different from those included in annual reports to shareholders because of additional requirements of S-X. As mentioned previously, one of the purposes of the revisions to S-X is to facilitate the integration of the Securities Act of 1933 and the Securities Exchange Act of 1934 by attaining uniformity

²Three other releases issued today adopt changes relating to: (1) Certain amendments to Form 10-K, the annual report form required to be filed by most publicly-owned companies, and a number of related rule, form and guide changes; (2) a new simplified form for the registration of securities issued in certain merger and reorganization transactions; and (3) uniform financial statement instructions for certain forms and reports required to be filed pursuant to the Securities Act and the Exchange Act; Securities Act Release Nos. 33-6231, 33-6232 and 33-6234, respectively.

¹An *ad hoc* committee established by the Securities and Exchange Commission for the purpose of assessing the adequacy of the corporate disclosure system.

between financial statements included in annual reports to shareholders and those prepared in accordance with S-X. Therefore, the Commission has re-examined Articles 3, 5 and 12 of S-X to determine which financial statement requirements should be required in annual reports to shareholders because of their significance and relevance.³

The Commission believes that annual reports to shareholders should not be overburdened with information which, although relevant to meaningful analysis, is of little interest to the majority of users. Therefore, it has relocated certain financial disclosures mandated in the financial statements by its previous requirements to the supplemental schedules required by Article 12.

The rules which are being adopted today have been the focus of serious consideration by the Commission and its staff. The Commission has considered the comments of the respondents and appreciates their concerns regarding its rules which affect the content of the annual report to shareholders. Clearly, the need to provide registrants with adequate flexibility in order to maintain the annual report to shareholders, and financial statements included therein, as readable and comprehensible documents has been one of the Commission's primary concerns. As a result, in January 1980 it proposed numerous changes to its rules, many of which are being adopted presently. As a consequence of the comment process, the Commission has re-evaluated the proposed rules and is adopting further revisions which are less restrictive than those proposed.

These revisions are discussed throughout this release and focus on the need for registrant flexibility, balanced with the need for uniformity in an integrated system. Overshadowing both these issues is the pervasive concern that registrants disseminate the financial information which is necessary for a fair presentation of the registrant's financial condition and results of operations.

As part of this re-evaluation, the requirement for financial statement note references has been removed and greater flexibility has been provided for determining items to be presented on the face of the financial statements. The Commission has decided not to adopt certain proposals such as the requirements to disclose earnings

applicable to common stock and certain information about income tax expense; it has relocated the note disclosures addressing short-term borrowings to the financial statement schedules; and the disclosure of disagreements with predecessor accountants to the supplementary financial information; and it has decided not to relocate the supplementary income statement schedule information to the notes. Additionally, certain rules which were interpretative of GAAP have been removed since present practice is considered acceptable.

Article 4

Article 4 now contains the rules of general application to be followed by all registrants in preparing financial statements in accordance with S-X which were included previously in Article 3. The proposed release envisioned a substantial reduction of the content of this Article and discussed the rationale for such action. Commentators substantially agreed with the changes which resulted in complete or partial elimination of certain rules and primarily focused their comments on those rules which were proposed to be retained or established. Consequently, this discussion will not include those rules which were proposed to be deleted, in whole or in part, the disposition of which is as proposed. The following is a discussion of the rules which were proposed to be retained, along with a discussion of the comments received and final rules being adopted.

Form, order, and terminology. This rule describes certain mechanics which registrants should follow when preparing financial statements in accordance with S-X. One of the items proposed to remain in this rule presented specific requirements for the display of negative amounts in financial statements. Commentators have indicated that present practice renders this segment of the rule unnecessary, and since the Commission is requiring annual reports to shareholders, required by Rule 14a-3 of the Commission's proxy rules, to conform with S-X, this rule may conflict with the display techniques utilized in these annual reports. Accordingly, this segment of the rule is modified to require that negative amounts be presented in a manner which clearly distinguishes the negative attribute.

Items not material. This rule permits registrants to exclude the separate presentation of items not material which otherwise would be required to be shown. The proposed rule contained a

reference to ASR No. 41 which has been deleted. The adopted rule instead paraphrases the essence of ASR No. 41 which permits insignificant amounts in financial statements to be combined. No negative comments were received regarding this rule and therefore it is adopted as proposed, with the modification indicated above.

Inapplicable captions and omission of unrequired or inapplicable financial statements. This rule explicitly permits the exclusion of captions and financial statements because the related information either does not exist or is not applicable. It further requires registrants to indicate the reasons why any otherwise required financial statements have been omitted. The rule is adopted as proposed.

Omission of substantially identical notes. This rule, which is adopted as proposed, permits the single presentation of substantially the same information which is required with respect to two or more financial statements relating to the same or affiliated persons, provided that a clear and specific reference is made in each of the other statements with respect to which the note is required.

Valuation and qualifying accounts. This proposed rule would have required that valuation and qualifying accounts be shown either separately in financial statements as deductions from the specific assets to which they apply or parenthetically on the face of the statements. Commentators recommended that registrants have the option of presenting this information in the notes to the financial statements. They indicated this flexibility would enhance the readability of the financial statements and that, in many cases, note disclosure results in a more meaningful and understandable financial presentation. The Commission has concluded that these comments have substantial validity; and, accordingly, it has deleted this general requirement. However, rules as to presentation of certain valuation and qualifying accounts are provided in Article 5.

Basis of determining amounts—book value. The proposed rule would have provided guidance to registrants when an instruction requires a statement as to "the basis of determining the amount." Further, it prohibited use of the term "book value" except in situations where the term explicitly was indicated as acceptable. Commentators have indicated that this rule is duplicative of the requirements of APB Opinion No. 22, "Disclosure of Accounting Policies." Therefore, recognizing that GAAP requires this disclosure, the Commission has determined to delete this rule.

³ Registrants which are subject to Articles 6, 7, 7A and 9 of S-X may deviate from strict compliance with S-X in their annual reports to shareholders (as permitted by the proxy rules) until those Articles have been revised. That revision should occur during the ensuing twelve months.

Current assets and current liabilities. This rule requires that generally recognized trade practice be followed if a company's normal operating cycle is longer than one year. This pertains to the inclusion of items in current assets or current liabilities and requires an explanation of the circumstances and, if practicable, an estimate of the amount not realizable or payable within one year, and the amounts maturing each year along with the interest rates or range of interest rates. This rule is adopted as proposed, except that the reference to ASR No. 102 is deleted.

Reacquired evidence of indebtedness. This rule requires that reacquired evidences of indebtedness be deducted from the appropriate liability caption, except for certain situations where the reacquired evidence of indebtedness is held for pension and other special funds not related to the particular issues and then may be shown as an asset of the fund. However, if shown as an asset, the amount of such evidences of indebtedness, the cost thereof, the stated amount, and purpose for which it was reacquired must be stated. This rule is adopted as proposed.

Reacquired shares. The proposed rule, which was unchanged from previous S-X requirements, would have required that reacquired shares not retired be shown separately as a deduction from the applicable account. Commentators noted that ARB No. 43 addresses this issue and permits reacquired shares to be shown as an asset when the investment is temporary and the shares are held for special purposes not related to the particular issue. The Commission recognizes the treatment prescribed by ARB No. 43 and accordingly has determined to delete this rule.

Discount on shares. This rule, which is adopted as proposed, requires that discounts on shares be shown separately as a deduction from the applicable account(s) as circumstances require.

General notes to financial statements. This section of Article 4 specifies the required general notes to the financial statements and requires disclosure of certain applicable information which is not explicitly required by GAAP. It requires presentation of the information either on the face of the appropriate financial statements or in appropriately captioned notes. The proposed rule would have required appropriate cross-references to the applicable notes on the face of the statements. Commentators indicated that registrants should be given flexibility in this matter, because in certain instances cross-references may impair readability or clutter the financial statements. Additionally,

certain methods of presentation are not conducive to cross-referencing. Registrants stated their belief that a general statement referring the reader to the notes frequently is adequate. The Commission believes note references can be valuable to users of financial statements if properly utilized by preparers but it does not desire to impede preparer efforts to develop more effective means of communicating financial information. Accordingly, this rule proposal has been withdrawn; however, cross-references to the applicable notes should appear on the face of the financial statements when appropriate for the effective presentation of financial information to the user of the financial statements.

The following is a discussion of the proposed subsections of *General notes to financial statements*:

Principles of consolidation or combination. This rule, which received no negative comments, refers registrants to revised Article 3 of S-X which contains the requirements for consolidated and combined financial statements.

Assets subject to lien. Two commentators indicated that this rule, which requires the presentation of certain information concerning assets mortgaged, pledged or otherwise subject to lien, is duplicative of Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies." The Commission believes that SFAS No. 5 does not provide explicit requirements in this regard and is adopting this rule as proposed.

Defaults. This rule requires disclosure of the facts and amounts concerning any default in principal, interest, sinking fund or redemption provisions with respect to any issues of securities or credit agreements. Previously, portions of this rule emphasized the need to classify as a current liability accelerated debt payments resulting from default. These were proposed for deletion since GAAP is considered to provide adequate guidance for the classification of liabilities as current or long-term. Most comments were favorable, and as a result this rule is adopted as proposed.

Preferred shares. This rule requires that the amount of aggregate preferences on involuntary liquidation, if other than par or stated value, be shown parenthetically in the appropriate section of the balance sheet. Commentators expressed conflicting interpretations of GAAP with regard to this issue. Some interpreted GAAP as requiring balance sheet presentation when this preference in liquidation may be of significance to the user, while

others stated that presentation should be either on the balance sheet or in the notes to the financial statements. The Commission believes practice should be consistent and for this reason the rule is adopted as proposed.

Restrictions which limit the availability of retained earnings or net income for dividend purposes. This rule was proposed to be expanded to require disclosure of restrictions on the payment of intra-company dividends as well as restrictions on the parent company's payment of dividends to its shareholders. A number of commentators recommended that the rule only require disclosure of the most restrictive of any restrictions on the payment of dividends to shareholders.

The Commission proposed expansion of this rule because of its belief that there should be disclosure of information about the ability of the consolidated entity to transfer funds among its component corporations. The presentation of consolidated financial statements and use of the equity method of accounting frequently leads users to believe that there is a free flow of funds among the various corporations which are combined in the consolidated entity or whose investment are recorded at equity, when in fact the viability of certain components, and perhaps the entire entity, may be threatened because of restrictions on the intra-company flow of funds.

In formulating these disclosure requirements, the Commission has noted that previous Rule § 210.5-02.41 required registrants to disclose the amount included in retained earnings of the issuer which represents undistributed earnings of unconsolidated subsidiaries and 50 or less owned persons. Since that requirement embraces issues which are related to the availability of retained earnings for dividend purposes it is being moved to this rule. Therefore, this rule has been altered to require disclosure of the most significant restrictions which limit the payment of dividends to shareholders and the payment of dividends by subsidiaries to the issuer; and in addition, the amount of undistributed earnings of unconsolidated subsidiaries and 50 percent or less owned persons. These restrictions may result from contractual agreements or from legal prohibitions.

Significant changes in bonds, mortgages and similar debt. This rule requires information about events occurring subsequent to the latest balance sheet being filed and is adopted as proposed.

Income tax expense. The proposed rule regarding income tax expense would have required registrants to

reconcile pretax income and income tax expense for both their Federal and foreign components, as reported in their financial statements, to Federal (foreign) taxable income and related income taxes anticipated to be reported on registrants' Federal (foreign) income tax returns. A summary of the actual tax computation showing amounts taxed at various rates, statutory, capital gains, etc., and the effects of offsetting credits, also would have been required.

A substantial majority of the commentators addressed this particular rule proposal and, of that group, all but a few totally opposed the rule. Commonly expressed reasons for such opposition were the opinions that (1) the present rule adopted by ASR No. 149, "Notice of Adoption of Amendment to Regulation S-X for Improved Disclosure of Income Tax Expense," is adequate, (2) there is no real benefit to the majority of users by providing this information, (3) many of the tax circumstances are too complex to be properly presented and understood in the proposed format, (4) companies' tax returns usually are not prepared for many months after financial statements are published, and (5) the amount of information would tend to overburden the financial statements. Commentators who supported the proposed rules indicated an overwhelming interest in the proposed disclosure concerning foreign income and related taxes.

The Commission believes that these objections substantially are valid. Accordingly, it is adopting final rules based primarily on the disclosure requirements adopted by ASR No. 149. These requirements call for disclosure of the components of income tax expense, the reasons for and tax effects of timing differences between book and tax reporting resulting in deferred income taxes, and a reconciliation between the effective income tax rate indicated by the income statement and the statutory Federal income tax rate. These rules are being retained with one significant addition—a requirement for separate disclosure of domestic and foreign pretax income.

In ASR No. 149, the Commission stated its belief that the detailed tax disclosure would be primarily of interest to professional analysts who have the obligation to develop an in-depth understanding of corporate results but might not be necessary in financial disclosure designed for the average investor. Since the adoption of those rules, however, the Commission has seen substantial voluntary inclusion by registrants of this tax information in their annual reports to shareholders.

Furthermore, as previously mentioned, numerous commentators supported the disclosure requirements instituted by ASR No. 149. Therefore, the Commission has determined to require disclosure of this information in annual reports to shareholders.

In the rule proposal, the Commission specifically invited commentators to address whether the Commission should retain the requirement concerning disclosure about future cash outlays for income taxes that are anticipated to substantially exceed income tax expense. Most registrants suggested that the rule be deleted, notwithstanding the importance of the disclosure it requires, because it is difficult to predict. The Commission understands that it is difficult to accurately predict this information; however, it believes that in situations where future cash outlays are anticipated to substantially exceed income tax expense, disclosure should be made. Since this disclosure may be more useful in relation to the liquidity section of the revised Management's Discussion and Analysis,⁴ the Commission has determined to delete this portion of the income tax rule. It should be pointed out that although this disclosure has not been explicitly required in the Management's Discussion and Analysis, when applicable, this is the type of information which should be provided.

Warrants and rights outstanding. This rule requires disclosure of certain pertinent information with respect to warrants and rights outstanding at the date of the related balance sheet. Similar disclosure is required by paragraph 19 of APB No. 15, "Earnings per Share." However, APB No. 15 requires disclosure for "the various securities outstanding" and is not as explicit as this rule with regard to warrants and rights. Only one commentator objected to this rule and the Commission has determined to adopt the rule as proposed.

Leased assets and lease commitments. The purpose of this rule is twofold. First, the Commission believes that, except for cases where a problem (as defined in the rules) exists, the provisions of SFAS No. 13, "Accounting for Leases," should be fully effective for public companies, whereas, SFAS No. 13 does not require full application until fiscal years beginning after December 31, 1980. When SFAS No. 13 is fully effective the Commission will rescind this segment of the rule. Second, the rule requires certain "as if" disclosures by rate-regulated enterprises which are not

within the scope of SFAS No. 13, a requirement which several commentators suggested should be deleted. The Commission is aware of the FASB project and related discussion memorandum, "Effect of Rate Regulation on Accounting for Regulated Enterprises." It is expected that the issue of accounting for leases and lease commitments will be given due consideration in the FASB's project. The Commission expects to retain the disclosure requirements related to rate-regulated enterprises until the FASB project is completed, at which time this segment of the rule will be re-evaluated.

Interest Cost. This rule requires disclosure of the amount of interest cost incurred and the respective amount expensed or capitalized for each period for which an income statement is presented. In ASR No. 272, "Rescission of Moratorium on Capitalization of Interest Costs," the Commission required these disclosures because SFAS No. 34, "Capitalization of Interest Cost," only requires prospective compliance for fiscal years beginning after December 15, 1979. The Commission will rescind this rule when the transition period has lapsed.

Disagreements on accounting and financial disclosure matters. This rule, which was proposed to be unchanged from the previous S-X requirements, requires disclosure about disagreements between registrants and their predecessor accountant involving certain accounting and financial disclosure matters. Several commentators argued that the resultant disclosure is not of financial significance and therefore, at a minimum, should not be included in the notes to the financial statements. The Commission continues to believe, as it has stated previously in Accounting Series Release Nos. 165 and 194, that:

This disclosure is * * * necessary to put readers of financial statements on notice that such a disagreement existed which could have significantly affected the statements.

However, the Commission has concluded that the disclosure of disagreements between registrants and their predecessor accountants can be made outside of the financial statements. Accordingly, this rule has been relocated to Item 12 of Regulation S-K, "Supplementary Financial Information." **Material related party transactions which affect the financial statements.** The first component of this rule was taken from Statement of Auditing Standards No. 6 ("SAS No. 6"), "Related Party Transactions," which provides guidance on procedures that should be considered by the Auditor when he is

⁴ Securities Act Release No. 33-6231 (September 2, 1980).

performing an examination of financial statements in accordance with generally accepted auditing standards to identify related party transactions and to satisfy himself as to the substance of and accounting for such transactions including financial statement disclosure.

Since GAAP does not include any general accounting or reporting guidelines for these types of transactions, the Commission believes it is beneficial to integrate the disclosure requirements of SAS No. 6 into S-X. Further, SAS No. 6 applies to audited financial statements only and not unaudited financial statements, which are frequently included in filings with the Commission. This part of the rule requires disclosure of transactions with investments in, and balances due to or from related parties which are material to the financial statements, individually or in the aggregate.

If comprehensive requirements for related party issues are developed by the FASB in the future as part of GAAP, as a result of the work now being performed by a task force authorized by the AICPA to investigate the issues dealing with related parties, the Commission will re-examine the need for it to have specific rules with regard to related party transactions. Until then, the Commission believes the rule is appropriate notwithstanding its partial or total opposition by approximately fifteen percent of the commentators who stated that the rule was unnecessary primarily because related party transactions are addressed in the auditing literature.

The second component of the rule applies to separate financial statements of the registrant, certain investees, or subsidiaries. It requires disclosure in the separate statements of amounts in the related consolidated financial statements which are eliminated and those not eliminated. Also, any intercompany profits or losses resulting from transactions with related parties and not eliminated and the effects thereof must be disclosed. These provisions are necessary because the first component of this rule does not explicitly cover this area.

The third segment of the rule received several specific comments in opposition to its adoption. It requires disclosure on the face of the balance sheet, income statement, or statement of changes in financial position of any material related party receivable or payable; revenue, expense, gain or loss; or cash flows, respectively. Commentators were opposed to the requirement to exhibit significant related party items on the face of the statements. However, this rule has been adopted since the

Commission believes that the information is meaningful to users of financial statements.

The fourth segment of the rule was proposed to provide guidance regarding the classification of current amounts due from related parties. Although commentators did not object to this component of the rule, the Commission has revised it in order to clarify that in classifying all amounts due to and due from related parties consideration should be given to the intent and financial position of the related parties in determining whether such amounts should be classified as current or long-term.

Supplementary income statement information. The information proposed to be required by this rule was previously required by Rules 5-04 and 12-16; however, the information, whether presented in a note or a schedule, was required to be presented in the prospectus for purposes of a Securities Act offering. The proposal to require disclosure of this information in the notes to the financial statements reflected the Commission's belief that this information about certain income statement items is relevant to substantially all users of financial statements. Approximately ten percent of the commentators indicated the contrary belief and suggested that the information continue to be presented in a schedule. Since the FASB project, "Reporting Earnings," is expected to address the issues underlying the need for this type of information, and since material changes in the components of expense items are required to be discussed in the revised Management's Discussion and Analysis, the Commission has determined it can permit this information to be furnished in a schedule.

Article 5

Article 5 prescribes the form and content of financial statements (balance sheets and income statements) and identifies the necessary schedules for commercial and industrial companies. This article, similar to the other articles designed for use by specific types of registrants, was adopted to provide guidance to commercial and industrial registrants when preparing financial statements pursuant to the Commission's rules. Alterations and modifications have been adopted on a "need to" basis and the format and components are intended to follow generally accepted practice. Although GAAP provides some guidance with respect to form and content of financial statements, the Commission believes it is appropriate to continue to assist

preparers of financial statements by providing this skeletal outline and narrative guidance based on generally accepted practice. The underlying intent of the article is to obtain financial statements presented in a coherent, comprehensive and consistent manner which thereby effectively communicate information to users. The Commission realizes that financial statement information can be displayed in a variety of somewhat similar and diverse forms and has retained Rule 4-01 to permit certain other presentations used by some industries. Nevertheless, it believes that a certain level of consistency is necessary to foster user comprehension. The adopted rules provide an overall structure but permit greater flexibility than did the prior S-X rules.

Additionally, the Commission is aware of the various activities of the FASB which might result in revised accounting principles and significant alteration of the form and content of financial statements. The Commission supports these endeavors and stands ready to re-evaluate this matter and alter S-X as acceptable alternatives are developed.

* * * * *

The individual rules in Article 5 are numerous and most have been adopted as proposed. The following discusses those items which were of particular interest to commentators and those items which have been adopted in a different form than that which was proposed.

Balance sheets. This rule indicates the persons to whom this article applies and requires compliance with its provisions. The reference to ASR No. 41 has been deleted.

Certain commentators indicated that this part of the article should provide guidance as to the application of the various required line items. The Commission concurs and, accordingly, has expanded this section. The rule states that the various indicated line items should be presented on the face of the balance sheet. Revised rule 4-02 refers to the fact that insignificant amounts may be combined. Additionally, certain items may be combined on the face of the statement as long as there is separate disclosure in the notes. This treatment is governed by explicit provisions included in the various rules of Article 5.

Numerous commentators suggested that the proposed rules be altered to provide registrants with a greater degree of flexibility to determine whether certain information should be disclosed

on the face of the balance sheet or in the accompanying notes.

The Commission has concluded that those comments have substantial validity and therefore has revised the instructions to require separate disclosure of the following items *either* on the face of the balance sheet or in an appropriately captioned note:

—Notes receivable when in the aggregate they exceed 10% of the total of accounts and notes receivable.

—Allowances for doubtful accounts and notes receivable.

—The individual components of other current assets which exceed five percent of total current assets.

—Accumulated depreciation, depletion, and amortization of property, plant and equipment.

—Accumulated depreciation and amortization of intangible assets.

—The individual components of other assets which exceed five percent of total assets.

—Amounts payable to (1) banks for borrowing; (2) factors or other financial institutions for borrowings; and (3) holders of commercial paper.

—The individual components of other current liabilities which exceed five percent of total current liabilities.

—The individual components of other liabilities which exceed five percent of total liabilities.

Inventories. This rule requires certain disclosures with respect to the components of inventory and other specific disclosures when certain unique situations exist.

Several commentators recommended deletion or clarification of the segment of this rule which requires certain disclosures if "cost" is used to determine any portion of the inventory amounts. This particular rule was adopted by ASR No. 164, "Notice of Adoption of Amendments to Regulation S-X to Provide for Improved Disclosures Related to Defense and Other Long-Term Contract Activities." The rule was intended to require disclosure of unique components of inventory, i.e., retained costs representing the excess of manufacturing and production costs over the amounts charged to cost of sales for delivered or in-process units, initial tooling and other deferred start-up costs, or general and administrative costs. In general, the Commission believes that the accounting treatment of such costs is sufficiently unique to warrant disclosure of their existence. The adopted rule contains examples of costs, such as those above, to provide guidance to registrants.

Accounts and notes payable. In addition to defining the components of this caption, this rule previously

required disclosure of certain information regarding short-term borrowings and unused lines of credit. These requirements were established by ASR No. 148, "Notice of Adoption of Amendments to Regulation S-X and Related Interpretations and Guidelines Regarding Disclosure of Compensating Balances and Short-Term Borrowing Arrangements." Several commentators noted that the detail of information required, including weighted average interest rates; average aggregate short-term borrowings outstanding during the period; maximum amount of aggregate short-term borrowings outstanding at any month end; and lines of credit may not be of interest to the majority of users of financial statements. Certain commentators stated that the revised Management's Discussion and Analysis might elicit a more effective presentation of the required information.

The Commission has concluded that these comments have substantial validity and it is adopting rules which correspond to the comments. With respect to the requirement to disclose information about the amounts of short-term borrowings outstanding and related interest rates, the Commission has adopted a schedule in § 210.12-10, "Short-term borrowings." The schedule is required by § 210.5-04, Schedule IX, to provide information about current amounts payable to banks for borrowings; factors and financial institutions for borrowings; and holders of commercial paper. The information required for each of these categories includes the balance outstanding at the end of the period and related weighted average interest rate, the maximum amount outstanding at any month end during the period, and the average amount outstanding during the period and related weighted average interest rate. The Commission has concluded that information concerning unused lines of credit is meaningful to the majority of users of financial statements and should remain as a financial statement requirement.

With regard to inclusion of the information concerning short-term borrowings, the information may be presented in Management's Discussion and Analysis if it results in a more meaningful presentation of the information being provided. If that procedure is followed, the schedule may be omitted if appropriate cross-references are made.

Income statements. This rule indicates that applicable registrants are to comply with the provisions of this rule except as otherwise permitted by the Commission.

The reference to ASR No. 41 has been deleted.

Net sales and gross revenue. In addition to detailing the display format for sales and revenues, this rule specifies that if the total reported sales or revenues include consumer excise tax in an amount equal to 1% or more, the amount of excise tax shall be shown parenthetically or otherwise on the face of the income statement. Several commentators urged that the rule be eliminated or the percentage requirement increased.

The Commission proposed to lower the percentage test from 10% to 1% because consumer excise tax amounts which are less than 10% of sales and revenue frequently are significant to the reported tax amount which includes the corresponding excise tax expense. The Commission continues to believe that this information should be disclosed because of its unique nature. It is neither a component of costs nor expenses although it frequently is aggregated with such items.

Earnings applicable to common stock. The proposed rule would have required registrants to present on the face of the income statement earnings which apply to common stock, if applicable. The previous requirement to disclose this amount was contained in the "Summary of Operations" items of the various Securities Act and Securities Exchange Act forms; however, this summary has been deleted in a concurrent release.⁵ Several commentators opposed the adoption of this rule because the information is not meaningful and suggested that the issue be considered by the FASB. The Commission has concluded that these comments are substantially valid with regard to many registrants and although it believes disclosure of earnings applicable to common stock is of value in certain situations, it has decided not to mandate presentation of the amount in all financial statements.

Property, plant and equipment. The proposed rule would have required substantial revision of the form and content of the property, plant and equipment schedules. The following information about property, plant and equipment would have been required:

(1) Assets classified by depreciation, depletion or amortization method and thereunder by major classification.

(2) Fully depreciated, depleted or amortized assets which are still in use.

(3) By classification, the rate used in computing depreciation, depletion or amortization, and, if more than one rate

⁵ Securities Act Release No. 33-6231 (September 2, 1980).

is used, the range and weighted average rate.

(4) Any asset or group of homogeneous assets (such as computers, equipment used in a specific manufacturing process, warehouses, and office buildings) which comprises 25 percent or more of a major class of property, plant and equipment and the depreciation, depletion or amortization rate. This requirement, however, would not have applied if the asset or group or homogeneous assets constituted less than five percent of total assets.

Numerous comments were received in response to the exposure of this rule. Most commentators opposed the disclosure on the grounds that it would be costly to produce and would provide details in excess of the present requirements which would be of little value to the majority of users. The Commission believes that certain of the comments have substantial validity, and therefore it has decided to reconsider the proposed rule and anticipates that it will re-expose in the near future a rule addressing this issue. Accordingly, the property, plant and equipment schedules will remain unchanged, except for a requirement to disclose depreciation methods and, if practicable, rates used to compute annual charges to the income statement. These requirements were previously included in the Rules of General Application and, accordingly, their inclusion in Article 5 is not an expansion of required disclosure.

Other Amendments

Changes to other articles. There are numerous cross-references in the other Articles of S-X to rules in Articles 3, 5 and 12 which have been deleted, revised or renumbered in this release. Accordingly, appropriate changes have been made to those articles in this release.

Selected quarterly financial data. This rule was proposed to be unchanged; however, it was proposed to be moved from S-X to Regulation S-K in recognition of the fact that the information is not required to be audited. This change has been adopted as proposed. The proposal noted that Rule 2-02(e) of S-X required a certain level of auditor involvement with this unaudited information. Coincident with the movement of the requirement for selected quarterly financial data to Regulation S-K, the substance of Rule 2-02(e) has been transferred to Regulation S-K. The Auditing Standards Board of the AICPA has stated that they will consider amendment of the applicable auditing standards in recognition of this change.

Financial accounting and reporting for oil and gas producing activities. A subparagraph is being added to § 210.4-10(k)(5), "Disclosure of estimated quantities of proved oil and gas reserves," which deals with the situation where foreign governments restrict disclosures about estimated reserves in that country. This instruction is the same as the one already contained in Item 2(b)(1), instruction (c) of Regulation S-K; however, since a requirement to disclose reserve quantities is also contained in S-X, this instruction should have been included therein. This revision was not proposed in the original proposed rule changes; however, adoption is considered appropriate since no new requirement is being adopted, but rather the Regulations S-K and S-X provisions are being conformed.

Foreign issuers. As part of this revision of S-X, a rule has been added to Article 4-01 which provides that financial statements of foreign private issuers filed with the Commission, on any form other than Form 20-F, may be prepared according to foreign accounting principles, if a reconciliation to United States GAAP and the provisions of S-X are also filed as part of the financial statements. This rule is not an amendment but is formalization of a policy which the Commission follows presently.

Reference Table of Rule Changes

The table which follows is presented to enable the reader to trace each of the previous rules to its amended rule number or to identify which previous rules have been deleted. Very brief indications of the changes are also provided. The discussion in the previous section of this release provides the detailed explanation of the more significant rule changes and those where the adopted rule differs from the proposed rule. The table is intended only as a guide, the new rules and the discussion of changes should also be read in conjunction with this table.

Previous rule	New rule
Article 3:	
210.3-01(a).....	210.4-01(a) The first paragraph contains minor wording revisions in the first sentence and the second sentence was moved from previous rule 210.3-06. A second and third paragraph were added covering GAAP requirements and foreign issuers, respectively.
210.3-01(b).....	210.4-01(b) First sentence revised. Second sentence deleted.
210.3-01(c).....	210.4-01(c) Rule revised to allow different methods of display for negative amounts.

Previous rule	New rule
210.3-02.....	210.4-02 Minor wording changes.
210.-03.....	210.4-03 Minor wording revising in paragraph (a). Paragraph (c) also revised.
210.3-04.....	210.4-04 No change.
210.3-05.....	Deleted.
210.3-06.....	First sentence moved to 210.4-01(a). Second sentence deleted.
210.3-07.....	Deleted.
210.3-08.....	Deleted.
210.3-09.....	Deleted.
210.3-10.....	Deleted.
210.3-11.....	210.4-05 Revised and combined with previous rule 210.3-12.
210.3-12.....	Combined with previous rule 210.3-11.
210.3-13.....	210.4-06 Minor revisions to rule.
210.3-14.....	Deleted.
210.3-15.....	210.4-07 Minor revisions to recognize changes made in ASR No. 268.
210.3-16.....	210.4-08 The requirement to present note references on the face of the financial statements has been deleted.
210.3-16(a).....	210.4-08(a) No change.
210.3-16(b).....	Deleted.
210.3-16(c).....	210.4-08(b) No change.
210.3-16(d).....	Deleted.
210.3-16(e).....	210.4-08(c) Second and third sentences deleted.
210.3-16(f).....	210.4-08(d) Subparagraphs (1), (2), (3)(i), and (3)(ii) deleted. Minor revisions to remainder of rule.
210.3-16(g).....	Deleted.
210.3-16(h).....	210.4-08(e) Present requirements of the rule are clarified and subparagraph (b) of previous rule 210.5-02.41 added.
210.3-16(i).....	Deleted.
210.3-16(j).....	Deleted.
210.3-16(k).....	210.4-08(f) No change.
210.3-16(l).....	Deleted.
210.3-16(m).....	Deleted.
210.3-16(n).....	Deleted.
210.3-16(o).....	210.4-08(g) Portions of the rule which duplicate GAAP were deleted and a requirement added for separate disclosure of domestic and foreign income (loss) before taxes.
210.3-16(p).....	210.4-08(h) No change.
210.3-16(q).....	210.4-08(i) Most of the rule is deleted but the references to SFAS No. 13, "Accounting for Leases," continue the previous requirements.
210.3-16(r).....	210.4-08(j) No change from the rule adopted in Accounting Series Release No. 272.
210.3-16(s).....	Moved to Item 12 of Regulation S-K.
210.3-16(t).....	Moved to Item 12 of Regulation S-K.
210.3-17.....	210.4-09 No change but see Accounting Series Release No. 271.
210.3-18.....	210.4-10 Subparagraph (vii) added to 4-10(k)(5).
210.5-01.....	210.5-01 No change.
210.5-02.....	210.5-02 Revisions to the introductory paragraph.
210.5-02.1.....	210.5-02.1 Minor revisions to the rule to focus on withdrawal or usage restrictions.
210.5-02.2.....	210.5-02.2 Revised to recognize current GAAP requirements.
210.5-02.3.....	210.5-02.3 Subparagraphs (a) revised; (b) deleted; (c) deleted; (d) revised; and (e) through (g) combined.
210.5-02.4.....	210.5-02.4 Location of disclosure is optional.
210.5-02.5.....	210.5-02.5 Caption only retained.
210.5-02.6.....	210.5-02.6 A portion of the first and second paragraphs of subparagraph (b) is revised.
210.5-02.7.....	210.5-02.8 Last sentence deleted and location of disclosure is optional.

Previous rule	New rule
210.5-02.8	210.5-02.7 Reference deleted.
210.5-02.9	210.5-02.9 No change.
210.5-02.10	210.5-02.10 Caption only retained (after being revised to refer to related parties) with a reference to rule 210.4-08(k) added.
210.5-02.11	210.5-02.11 Caption only retained (after being revised with a reference to rule 210.4-08(k) added.
210.5-02.12	210.5-02.12 Revised to recognize current GAAP requirements and to combine the requirements of previous rule 210.5-02.13.
210.5-02.13	Deleted. Requirement combined with 210.5-02.12.
210.5-02.14	210.5-02.13 Subparagraph (a) revised; subparagraph (b) revised to delete part of next to last sentence and all of last sentence.
210.5-02.15	210.5-02.14 Location of disclosure is optional.
210.5-02.16	210.5-02.15 Previous requirement revised and expanded.
210.5-02.17	210.5-02.16 Location of disclosure is optional.
210.5-02.18	210.5-02.17 Previous requirement revised and expanded and location of disclosure is optional.
210.5-02.19	Deleted.
210.5-02.20	Deleted.
210.5-02.21	Deleted.
210.5-02.22	Deleted.
210.5-02.23	Deleted.
210.5-02.24	210.5-02.18 No change.
210.5-02.25	210.5-02.19 Minor revisions to subparagraph (a). The requirements of subparagraph (b) have been transferred to a schedule (§ 210.12-10). No change in subparagraph (c).
210.5-02.26	Deleted. Requirement combined with previous rule 210.5-02.27.
210.5-02.27	210.5-02.20 Revised to also include the requirements of previous rule 210.5-02.26.
210.5-02.28	210.5-02.21 No change.
210.5-02.29	210.5-02.22 Minor revisions in subparagraph (a); no change in subparagraph (b).
210.5-02.30	Deleted.
210.5-02.31	210.5-02.23 Caption only retained with a reference to rule 210.4-08(k) being added.
210.5-02.32	Deleted.
210.5-02.33	210.5-02.24 Location of disclosure is optional.
210.5-02.34	210.5-02.25 No change.
210.5-02.35	210.5-02.26 Last sentence deleted.
210.5-02.36	Deleted.
210.5-02.37	210.5-02.27 Minor revisions.
210.5-02.38	210.5-02.28 No change.
210.5-02.39	210.5-02.29 Location of certain disclosure is optional.
210.5-02.40	210.5-02.30 Location of certain disclosure is optional.
210.5-02.41	210.5-02.31 Revised to permit the combination of certain items; subparagraph (b) to 210.4-08(e).
210.5-02.42	210.5-02.32 Minor wordings changes.
210.5-03	210.5-03 Minor revisions made to introductory paragraph; subparagraphs (a) and (b) deleted; minor revisions made to subparagraph (c).
210.5-03.1A	210.5-03.1 Minor revisions made and combined with previous rules 210.5-03.1B and .1C.
210.5-03.2A	210.5-03.2 Minor revisions made and combined with previous rules 210.5-03.2B and .2C.
210.5-03.3A	210.5-03.1 See 210.5-03.1A above.
210.5-03.1B	210.5-03.1 See 210.5-03.1A above.
210.5-03.2B	210.5-03.2 See 210.5-03.2A above.

Previous rule	New rule
210.5-03.1C	210.5-03.1 See 210.5-03.1A above.
210.5-03.2C	210.5-03.2 See 210.5-03.2A above.
210.5-03.3	210.5-03.3 No change except for reference to preceding rules.
210.5-03.4	210.5-03.4 Caption only retained.
210.5-03.5	210.5-03.5 No change.
210.5-03.6	210.5-03.6 No change.
210.5-03.7	210.5-03.7 Revised and combined with previous Rules 210.5-03.8, .9, and .10.
210.5-03.8	See 210.5-03.7 above.
210.5-03.9	See 210.5-03.7 above.
210.5-03.10	See 210.5-03.7 above.
210.5-03.11	210.5-03.8 Caption only retained.
210.5-03.12	210.5-03.9 Revised and combined with previous rule 210.5-03.13.
210.5-03.13	210.5-03.9 Revised and combined with previous rule 210.5-03.12.
210.5-03.14	210.5-03.10 No change.
210.5-03.15	210.5-03.11 No change.
210.5-03.16	210.5-03.12 No change.
210.5-03.17	210.5-03.13 First sentence deleted and minor revisions to remainder of rule.
210.5-03.18	210.5-03.16 Caption expanded.
210.5-03.19	210.5-03.17 Caption only retained.
210.5-03.20	210.5-03.18 Caption only retained.
210.5-03.21	210.5-03.19 No change.
210.5-03.22	210.5-03.20 Caption only retained.
210.5-04	210.5-04. The changes made to this rule are as a result of the revisions made in Article 12 (see below) and a renumbering of schedules.
Article 12:	
210.12-01	210.12-01 No change.
210.12-02	210.12-02 Revised heading.
210.12-03	210.12-03 Revised and expanded to include related parties.
210.12-04	210.12-04 Expanded to include related parties.
210.12-05	210.12-05 Format of schedule changed and combined with previous rule 210.12-11.
210.12-06	210.12-06 Footnote added to include the requirements of previous rule 210.3-16(m)(1).
210.12-07	210.12-07 No change.
210.12-08	Deleted.
210.12-09	Deleted.
210.12-10	Deleted.
210.12-11	Combined with 210.12-05 above.
210.12-12	210.12-06 No change.
210.12-13	210.12-09 Revised title.
210.12-14	Deleted.
210.12-15	Deleted.
210.12-16	210.12-11 Partial elimination of disclosures.
210.12-17	Previously revoked.
210.12-18	Previously revoked.
210.12-19	210.12-12 No change.
210.12-20	Previously revoked.
210.12-21	210.12-13 No change.
210.12-22	210.12-14 No change.
210.12-23	Previously revoked.
210.12-24	Previously revoked.
210.12-25	Previously revoked.
210.12-26	Previously revoked.
210.12-27	210.12-15 No change.
210.12-28	Previously revoked.
210.12-29	210.12-16 No change.
210.12-30	Previously revoked.
210.12-31	210.12-17 No change.
210.12-31a	210.12-18 No change.
210.12-32	Previously revoked.
210.12-33	210.12-19 No change.
210.12-34	210.12-20 No change.
210.12-35	210.12-21 No change.
210.12-36	210.12-22 No change.
210.12-37	210.12-23 No change.
210.12-38	210.12-24 No change.
210.12-39	210.12-25 No change.
210.12-40	210.12-26 No change.
210.12-41	210.12-27 No change.

Commission Action

The Commission hereby amends 17 CFR Chapter II as follows:

PART 210—FORM AND CONTENT OF FINANCIAL STATEMENTS, SECURITIES ACT OF 1933, SECURITIES EXCHANGE ACT OF 1934, PUBLIC UTILITY HOLDING COMPANY ACT OF 1935, INVESTMENT COMPANY ACT OF 1940, AND ENERGY POLICY AND CONSERVATION ACT OF 1975

1. By adding a new paragraph (t) to § 210.1-02 and by redesignating the former paragraphs (t) through (y) as (u) through (z).

§ 210.1-02 Definitions of terms used in Regulation S-X (17 CFR Part 210).

(t) *Related parties*. The term "related parties" means the registrant; its affiliates; principal owners, management, and members of their immediate families; entities for which investments are accounted for by the equity method; and any other party with which the reporting entity may deal when one party has the ability to significantly influence the management or operating policies of the other, to the extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Related parties also exist when another entity has the ability to significantly influence the management or operating policies of the transacting parties or when another entity has an ownership interest in one of the transacting parties and the ability to significantly influence the other, to the extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests. For purposes of this definition, the terms (1) "principal owner" means the owner(s) of record or known beneficial owner(s) of more than 10% of the voting interests of the reporting entity, and (2) "Management" means any person(s) having responsibility for achieving the objectives of the organization and the concomitant authority to establish the policies and to make the decisions by which such objectives are to be pursued.

2. By deleting § 210.2-02(e).

§ 210.2-02 Accountants' reports.

(e) [Deleted].

§§ 210.3-05—210.3-10, 210.3-12 and 210.3-14 [Removed]; §§ 210.4-01—210.4-08 [Redesignated as §§ 210.3A-01—210.3A-08]; §§ 210.3-01—210.3-04 [Redesignated as §§ 210.4-01—210.4-04]; § 210.3-11 [Redesignated as § 210.4-05]; § 210.3-13 [Redesignated as § 210.4-06]; §§ 210.3-15—210.3-18 [Redesignated §§ 210.4-07—210.4-10]; Redesignated §§ 210.4-01—210.4-06 [Revised]; § 210.4-10 [Amended]

3. (a) Sections 210.3-05 through 210.3-10, 210.3-12 and 210.3-14 are removed; (b) §§ 210.4-01 through 210.4-08 are redesignated as §§ 210.3A-01 through 210.3A-08 in concurrent Release No. 33-6234; (c) §§ 210.3-01 through 210.3-04 are redesignated as §§ 210.4-01 through 210.4-04; (d) § 210.3-11 is redesignated § 210.4-05; (e) § 210.3-13 is redesignated § 210.4-06 and §§ 210.3-15 through 210.3-18 are redesignated §§ 210.4-07 through 210.4-10; (f) redesignated §§ 210.4-01 through 210.4-08 are revised and a new paragraph (k)(5)(vii) is added to § 210.4-10 as follows:

Rules of General Application

§ 210.4-01 Form, order, and terminology.

(a) Financial statements should be filed in such form and order, and should use such generally accepted terminology, as will best indicate their significance and character in the light of the provisions applicable thereto. The information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further material information as is necessary to make the required statements, in the light of the circumstances under which they are made, not misleading.

(1) Financial statements filed with the Commission which are not prepared in accordance with generally accepted accounting principles will be presumed to be misleading or inaccurate, despite footnote or other disclosures, unless the Commission has otherwise provided. This article and other articles of Regulation S-X provide clarification of certain disclosures which must be included in any event, in financial statements filed with the Commission.

(2) Financial statements of foreign private issuers filed with the Commission, on any form other than Form 20-F, may be prepared according to foreign accounting principles: *Provided*, That a reconciliation to United States generally accepted accounting principles and the provisions of Regulation S-X is also filed as part of the financial statements.

(b) All money amounts required to be shown in financial statements may be

expressed in whole dollars or multiples thereof, as appropriate: *Provided*, That, when stated in other than whole dollars, an indication to that effect is inserted immediately beneath the caption of the statement or schedule, at the top of the money columns, or at an appropriate point in narrative material.

(c) Negative amounts (red figures) shall be shown in a manner which clearly distinguishes the negative attribute. When determining methods of display, consideration should be given to the limitations of reproduction and microfilming processes.

§ 210.4-02 Items not material.

If the amount which would otherwise be required to be shown with respect to any item is not material, it need not be separately set forth. The combination of insignificant amounts is permitted.

§ 210.4-03 Inapplicable captions and omission of unrequired or inapplicable financial statements.

(a) No caption should be shown in any financial statement as to which the items and conditions are not present.

(b) Financial statements not required or inapplicable because the required matter is not present need not be filed.

(c) The reasons for the omission of any required financial statements shall be indicated.

§ 210.4-04 Omission of substantially identical notes.

If a note covering substantially the same subject matter is required with respect to two or more financial statements relating to the same or affiliated persons, for which separate sets of notes are presented, the required information may be shown in a note to only one of such statements: *Provided*, That a clear and specific reference thereto is made in each of the other statements with respect to which the note is required.

§ 210.4-05 Current assets and current liabilities.

If a company's normal operating cycle is longer than one year, generally recognized trade practices should be followed with respect to the inclusion or exclusion of items in current assets or current liabilities. An appropriate explanation of the circumstances should be made and, if practicable, an estimate given of the amount not realizable or payable within one year. The amounts maturing in each year (if practicable) along with the interest rates or range of rates also shall be disclosed.

§ 210.4-06 Reacquired evidences of indebtedness.

Reacquired evidences of indebtedness shall be deducted from the appropriate liability caption. However, reacquired evidences of indebtedness held for pension and other special funds not related to the particular issues may be shown as assets: *Provided*, That there be stated the amount of such evidences of indebtedness, the cost thereof, the amount at which stated, and the purpose for which acquired.

§ 210.4-07 Discount on shares.

Discount on shares, or any unamortized balance thereof, shall be shown separately as a deduction from the applicable account(s) as circumstances require.

§ 210.4-08 General notes to financial statements.

If applicable to the person for which the financial statements are filed, the following shall be set forth on the face of the appropriate statement or in appropriately captioned notes. The information shall be provided for each statement required to be filed, except that the information required by items (b), (c), (d), (e), (f), and (h) shall be provided as of the most recent audited balance sheet being filed and for item (i) as specified therein. When specific statements are presented separately, the pertinent notes shall accompany such statements unless cross-referencing is appropriate.

(a) *Principles of consolidation or combination.* With regard to consolidated or combined financial statements, refer to §§ 210.3A-01 to 3A-08 for requirements for supplemental information in notes to the financial statements.

(b) *Assets subject to lien.* Assets mortgaged, pledged, or otherwise subject to lien, and the approximate amounts thereof, shall be designated and the obligations collateralized briefly identified.

(c) *Defaults.* The facts and amounts concerning any default in principal, interest, sinking fund, or redemption provisions with respect to any issue of securities or credit agreements, or any breach of covenant of a related indenture or agreement, which default or breach existed at the date of the most recent balance sheet being filed and which has not been subsequently cured, shall be stated in the notes to the financial statements. If a default or breach exists but acceleration of the obligation has been waived for a stated period of time beyond the date of the most recent balance sheet being filed,

state the amount of the obligation and the period of the waiver.

(d) *Preferred shares.* (1) Aggregate preferences on involuntary liquidation, if other than par or stated value, shall be shown parenthetically in the equity section of the balance sheet.

(2) Disclosure shall be made of any restriction upon retained earnings that arises from the fact that upon involuntary liquidation the aggregate preferences of the preferred shares exceeds the par or stated value of such shares.

(e) *Restrictions which limit the availability of retained earnings or net income for dividend purposes.* (1) Describe the most significant restrictions, other than as reported in paragraph (d) of this section, on the payment of dividends by the issuer, indicating briefly their sources, their pertinent provisions, and, where appropriate and determinable, the amount of retained earnings or net income (i) so restricted, or (ii) free of such restrictions.

(2) Describe the most significant restrictions on the payment of dividends by consolidated subsidiaries to the issuer, indicating briefly their sources, their pertinent provisions, and, where determinable, the amount of retained earnings or net income (i) so restricted or (ii) free of such restrictions.

(3) Disclose separately the amount of retained earnings of the issuer which represents undistributed earnings of unconsolidated subsidiaries and 50 percent or less owned persons. With respect to the undistributed earnings of unconsolidated subsidiaries, describe the most significant restrictions on the payment of dividends by the unconsolidated subsidiaries to the issuer, indicating briefly their sources, their pertinent provisions, and, where determinable the amount (i) so restricted or (ii) free of such restrictions.

(f) *Significant changes in bonds, mortgages and similar debt.* Any significant changes in the authorized or issued amounts of bonds, mortgages and similar debt since the date of the latest balance sheet being filed for a particular person or group shall be stated.

(g) *Income tax expense.* (1) Disclosure shall be made in the income statement or a note thereto, of (i) the components of income (loss) before income tax expense (benefit) as either domestic or foreign; (ii) the components of income tax expense, including (A) taxes currently payable and (B) the net tax effects, as applicable, of timing differences (indicate separately the amount of the estimated tax effect of each of the various types of timing differences, such as depreciation,

warranty costs, etc., where the amount of each such tax effect exceeds five percent of the amount computed by multiplying the income before tax by the applicable statutory Federal income tax rate; other differences may be combined.)

Note.—Amounts applicable to United States Federal income taxes, to foreign income taxes and the other income taxes shall be stated separately for each major component. Amounts applicable to foreign income (loss) and amounts applicable to foreign or other income taxes which are less than five percent of the total of income before taxes or the component of tax expense, respectively, need not be separately disclosed. For purposes of this rule, foreign income (loss) is defined as income (loss) generated from a registrant's foreign operations, i.e., operations that are located outside of the registrant's home country.

(2) Provide a reconciliation between the amount of reported total income tax expense (benefit) and the amount computed by multiplying the income (loss) before tax by the applicable statutory Federal income tax rate, showing the estimated dollar amount of each of the underlying causes for the difference. If no individual reconciling item amounts to more than five percent of the amount computed by multiplying the income before tax by the applicable statutory Federal income tax rate, and the total difference to be reconciled is less than five percent of such computed amount, no reconciliation need be provided unless it would be significant in appraising the trend of earnings. Reconciling items that are individually less than five percent of the computed amount may be aggregated in the reconciliation. The reconciliation may be presented in percentages rather than in dollar amounts. Where the reporting person is a foreign entity, the income tax rate in that person's country of domicile should normally be used in making the above computation, but different rates should not be used for subsidiaries or other segments of a reporting entity. When the rate used by a reporting person is other than the United States Federal corporate income tax rate, the rate used and the basis for using such rate shall be disclosed.

(h) *Warrants or rights outstanding.* Information with respect to warrants or rights outstanding at the date of the related balance sheet shall be set forth as follows:

(1) Title of issue of securities called for by warrants or rights.

(2) Aggregate amount of securities called for by warrants or rights outstanding.

(3) Date from which warrants or rights are exercisable.

(4) Price at which warrant or right is exercisable.

(i) *Leased assets and lease commitments.* (1) Leased assets and lease commitments of regulated enterprises subject to the rate-making process.

(i) Paragraph (i)(1) of this section is applicable to all regulated enterprises subject to the rate-making process that do not record capital leases as assets with associated liabilities.

(ii) The following information shall be provided for capital leases covered by this rule:

(A) As of the date for each required balance sheet, the aggregate amounts of the assets and liabilities that would have been recorded in the accounts had all leases meeting the definition of a capital lease been recorded.

(B) For each period for which an income statement is required, the aggregate effect on expenses had all assets obtained through leases meeting the definition of a capital lease been recorded as assets with associated liabilities and any additional information management believes is necessary as to the rate-making process.

(2) Leased assets and lease commitments of enterprises which are not covered by paragraph (i)(1) of this section. The financial statement requirements in Statement of Financial Accounting Standards No. 13, "Accounting for Leases," shall be applied in financial statements filed for fiscal years ended after December 24, 1978 with regard to all leases except for companies where a problem, as defined exists. The problem and its potential impact should be disclosed in the footnotes to the financial statements. For purposes of this paragraph "problem" is defined as: That situation where capitalization of capital leases as defined in Statement of Financial Accounting Standards No. 13 would result in the violation or probable future violation expected to occur prior to fiscal years beginning after December 31, 1980 of a restrictive clause in an existing loan indenture or other agreement.

(j) *Interest cost.* Disclosure shall be provided for each period for which an income statement is presented of the amount of interest cost incurred and the respective amounts expensed or capitalized.

(k) *Material related party transactions which affect the financial statements.* (1) The financial statements filed shall disclose transactions with, investments in, and balances due to or from related parties that are material, individually or in the aggregate. This disclosure should include the following:

(i) The nature of the relationship(s).
 (ii) A description of the transactions (summarized when appropriate) for the periods for which an income statement is presented, including amounts, if any, and such other information as is deemed necessary to an understanding of the effects on the financial statements.

(iii) The dollar volume of transactions and the effects of any change in the method of establishing terms from that used in the preceding period.

(iv) Amounts due to or from related parties and, if not otherwise apparent, the terms and manner of settlement.

(v) Amount of investments in related parties.

(2) In cases where separate financial statements are presented for the registrant, certain investees, or subsidiaries, separate disclosure shall be made in such statements of the amounts in the related consolidated financial statements which are (i) eliminated and (ii) not eliminated. Also, any intercompany profits or losses resulting from transactions with related parties and not eliminated and the effects thereof shall be disclosed.

(3) Disclosure should be made on the face of the balance sheet, income statement, or statement of changes in financial position for any material related party receivable or payable; revenue, expense, gain or loss; or cash flows, respectively. Relevant details regarding these amounts should be provided in the notes.

(4) With respect to the classification of current amounts due from or to related parties, consideration should be given to the intent and the financial position of such related parties in determining whether such amounts should be classified as current or long-term.

§ 210.4-10 Financial accounting and reporting for oil and gas producing activities pursuant to the Federal securities laws and the Energy Policy and Conservation Act of 1975.

* * * * *

(k) * * *

(5) * * *

(vii) If any foreign government restricts the disclosure of estimated reserves for properties under its governmental authority, or amounts under long-term supply, purchase, or similar agreements, or if the foreign government requires the disclosure of reserves other than proved, the registrant should identify the country, cite the law or regulation which restricts or requires such disclosure, and indicate that the reported reserve estimates or amounts do not include figures for the

named country or that reserve estimates include reserves other than proved.

* * * * *

4. By revising §§ 210.5-10 to 210.5-04 (Article 5) to read as follows:

Commercial and Industrial Companies

§ 210.5-01 Application of §§ 210.5-01 to 210.5-04.

(a) Sections 210.501 to 210.5-04 shall be applicable to financial statements filed for all persons except—

(1) Management investment companies (see §§ 210.6-01 to 210.6-10).

(2) Unit investment trusts (see §§ 210.6-10a to 210.6-13).

(3) Face amount certificate investment companies (see §§ 210.6-20 to 210.6-24).

(4) Employee stock purchase, savings and similar plans (see §§ 210.6-30 to 210.6-34).

(5) Insurance companies other than title insurance companies (see §§ 210.7-01 to 210.7-06 and §§ 210.7A-01 to 210.7A-06).

(6) Committees issuing certificates of deposit (see §§ 210.8-01 to 210.8-03).

(7) Bank holding companies and banks (see §§ 210.9-01 to 210.9-05).

(8) Brokers and dealers when filing Forms X-17A-5 and X-17A-10 (§ 249.617) (see §§ 240.17a-5 and 240.17a-10 under the Securities Exchange Act of 1934).

(b) Companies in the development stage.

Section 210.5A-2 prescribes additional information to be included in financial statements filed by companies in the development stage.

§ 210.5-02 Balance sheets.

The purpose of this rule is to indicate the various line items and certain additional disclosures which, if applicable, and except as otherwise permitted by the Commission, should appear on the face of the balance sheets or related notes filed for the persons to whom this article pertains (see § 210.4-01(a)).

Assets and Other Debits

Current Assets, when appropriate

[See § 210.4-05]

1. *Cash and cash items.* Separate disclosure shall be made of the cash and cash items which are restricted as to withdrawal or usage. The provisions of any restrictions shall be described in a note to the financial statements. Restrictions may include legally restricted deposits held as compensating balances against short-term borrowing arrangements, contracts entered into with others, or company statements of intention with regard to particular deposits; however, time deposits and short-term certificates of deposit are not generally included in legally restricted deposits. In cases where

compensating balance arrangements exist but are not agreements which legally restrict the use of cash amounts shown on the balance sheet, describe in the notes to the financial statements these arrangements and the amount involved, if determinable, for the most recent audited balance sheet required and for any subsequent unaudited balance sheet required in the notes to the financial statements. Compensating balances that are maintained under an agreement to assure future credit availability shall be disclosed in the notes to the financial statements along with the amount and terms of such agreement.

2. *Marketable securities.* The accounting and disclosure requirements for current marketable equity securities are specified by generally accepted accounting principles. With respect to all other current marketable securities, state, parenthetically or otherwise, the basis of determining the aggregate amount shown in the balance sheet, along with the alternatives of the aggregate cost or the aggregate market value at the balance sheet date.

3. *Accounts and notes receivable.* (a) State separately amounts receivable from (1) customers (trade); (2) related parties (see § 210.4-08(k)); (3) underwriters, promoters, and employees (other than related parties) which arose in other than the ordinary course of business; and (4) others.

(b) If the aggregate amount of notes receivable exceeds 10 percent of the aggregate amount of receivables, the above information shall be set forth separately, in the balance sheet or in a note thereto, for accounts receivable and notes receivable.

(c) If receivables include amounts due under long-term contracts (see § 210.5-02.6(d)), state separately in the balance sheet or in a note to the financial statements the following amounts:

(1) Balances billed but not paid by customers under retainage provisions in contracts.

(2) Amounts representing the recognized sales value of performance and such amounts that had not been billed and were not billable to customers at the date of the balance sheet. Include a general description of the prerequisites for billing.

(3) Billed or unbilled amounts representing claims or other similar items subject to uncertainty concerning their determination or ultimate realization. Include a description of the nature and status of the principal items comprising such amount.

(4) With respect to (1) through (3) above, also state the amounts included in each item which are expected to be collected after one year. Also state, by year, if practicable, when the amounts of retainage (see (1) above) are expected to be collected.

4. *Allowances for doubtful accounts and notes receivable.* The amount is to be set forth separately in the balance sheet or in a note thereto.

5. *Unearned income.*

6. *Inventories.* (a) State separately in the balance sheet or in a note thereto, if practicable, the major classes of inventory such as: (1) Finished goods; (2) inventoried costs relating to long-term contracts or programs (see (d) below and § 210.4-05); (3)

work in process (see § 210.4-05); (4) raw materials; and (5) supplies.

(b) The basis of determining the amounts shall be stated.

If "cost" is used to determine any portion of the inventory amounts, the description of this method shall include the nature of the cost elements included in inventory. Elements of "cost" include, among other items, retained costs representing the excess of manufacturing or production costs over the amounts charged to cost of sales or delivered or in-process units, initial tooling or other deferred startup costs, or general and administrative costs.

The method by which amounts are removed from inventory (e.g., "average cost," "first-in, first-out," "last-in, first-out," "estimated average cost per unit") shall be described. If the estimated average cost per unit is used as a basis to determine amounts removed from inventory under a total program or similar basis of accounting, the principal assumptions (including, where meaningful, the aggregate number of units expected to be delivered under the program, the number of units delivered to date and the number of units on order) shall be disclosed.

If any general and administrative costs are charged to inventory, state in a note to the financial statements the aggregate amount of the general and administrative costs incurred in each period and the actual or estimated amount remaining in inventory at the date of each balance sheet.

(c) If the LIFO inventory method is used, the excess of replacement or current cost over stated LIFO value shall, if material, be stated parenthetically or in a note to the financial statements.

(d) For purposes of §§ 210.5-02.3 and 210.5-02.6, long-term contracts or programs include (1) all contracts or programs for which gross profits are recognized on a percentage-of-completion method of accounting or any variant thereof (e.g., delivered unit, cost to cost, physical completion), and (2) any contracts or programs accounted for on a completed contract basis of accounting where, in either case, the contracts or programs have associated with them material amounts of inventories or unbilled receivables and where such contracts or programs have been or are expected to be performed over a period of more than twelve months. Contracts or programs of shorter duration may also be included, if deemed appropriate.

For all long-term contracts or programs, the following information, if applicable, shall be stated in a note to the financial statements:

(i) The aggregate amount of manufacturing or production costs and any related deferred costs (e.g., initial tooling costs) which exceeds the aggregate estimated cost of all in-process and delivered units on the basis of the estimated average cost of all units expected to be produced under long-term contracts and programs not yet complete, as well as that portion of such amount which would not be absorbed in cost of sales based on existing firm orders at the latest balance sheet date. In addition, if practicable, disclose the amount of deferred costs by type of cost (e.g., initial tooling, deferred production, etc.).

(ii) The aggregate amount representing claims or other similar items subject to uncertainty concerning their determination or ultimate realization, and include a description of the nature and status of the principal items comprising such aggregate amount.

(iii) The amount of progress payments netted against inventory at the date of the balance sheet.

7. Prepaid expenses.

8. *Other current assets.* State separately, in the balance sheet or in a note thereto, any amounts in excess of five percent of total current assets.

9. *Total current assets, when appropriate.*

10. *Securities of related parties.* (See § 210.4-08(k).)

11. *Indebtedness of related parties—not current.* (See § 210.4-08(k).)

12. *Other investments.* The accounting and disclosure requirements for non-current marketable equity securities are specified by generally accepted accounting principles. With respect to other security investments and any other investment, state, parenthetically or otherwise, the basis of determining the aggregate amounts shown in the balance sheet, along with the alternate of the aggregate cost or aggregate market value at the balance sheet date.

13. Property, plant and equipment.

(a) State the basis of determining the amounts.

(b) Tangible and intangible utility plant of a public utility company shall be segregated so as to show separately the original cost, plant acquisition adjustments, and plant adjustments, as required by the system of accounts prescribed by the applicable regulatory authorities. This rule shall not be applicable in respect to companies which are not required to make such a classification.

14. *Accumulated depreciation, depletion, and amortization of property, plant and equipment.* The amount is to be set forth separately in the balance sheet or in a note thereto.

15. *Intangible assets.* State separately each class of such assets which is in excess of five percent of the total assets, along with the basis of determining the respective amounts. Any significant addition or deletion shall be explained in a note.

16. *Accumulated depreciation and amortization of intangible assets.* The amount is to be set forth separately in the balance sheet or in a note thereto.

17. *Other assets.* State separately, in the balance sheet or in a note thereto, any other item not properly classed in one of the preceding asset captions which is in excess of five percent of total assets. Any significant addition or deletion should be explained in a note. With respect to any significant deferred charge, state the policy for deferral and amortization.

18. *Total assets and, when appropriate, other debits.*

Liabilities and Stockholders' Equity

Current Liabilities, When Appropriate (See § 210.4-05)

19. *Accounts and notes payable.* (a) State separately amounts payable to (1) banks for borrowings; (2) factors or other financial

institutions for borrowings; (3) holders of commercial paper; (4) trade creditors; (5) related parties (see § 210.4-08(k)); (6) underwriters, promoters, and employees (other than related parties); and (7) others. Amounts applicable to (1), (2) and (3) may be stated separately in the balance sheet or in a note thereto.

(b) The amount and terms (including commitment fees and the conditions under which lines may be withdrawn) of unused lines of credit for short-term financing shall be disclosed, if significant, in the notes to the financial statements. The amount of these lines of credit which support a commercial paper borrowing arrangement or similar arrangements shall be separately identified.

20. *Other current liabilities.* State separately, in the balance sheet or in a note thereto, any item in excess of 5 percent of total current liabilities. Such items may include, but are not limited to, accrued payrolls, accrued interest, taxes, indicating the current portion of deferred income taxes, and the current portion of long-term debt. Remaining items may be shown in one amount.

21. *Total current liabilities, when appropriate.*

Long-Term Debt

22. *Bonds, mortgages and other long-term debt, including capitalized leases.* (a) State separately, in the balance sheet or in a note thereto, each issue or type of obligation and such information as will indicate (see § 210.4-06): (1) the general character of each type of debt including the rate of interest; (2) the date of maturity, or, if maturing serially, a brief indication of the serial maturities, such as "maturing serially from 1980 to 1990"; (3) if the payment of principal or interest is contingent, an appropriate indication of such contingency; (4) a brief indication of priority; (5) if convertible, the basis; and (6) the combined aggregate amount of maturities and sinking fund requirements for all issues, each year for the five years following the date of the balance sheet. For amounts owed to related parties, see § 210.4-08(k).

(b) The amount and terms (including commitment fees and the conditions under which commitments may be withdrawn) of unused commitments for long-term financing arrangements that would be disclosed under this rule if used shall be disclosed in the notes to the financial statements if significant.

23. *Indebtedness to related parties—not current.* Include under this caption indebtedness to related parties as required under § 210.4-08(k).

24. *Other liabilities.* State separately, in the balance sheet or in a note thereto, any item not properly classified in one of the preceding liability captions which is in excess of 5 percent of total liabilities.

25. *Commitments and contingent liabilities.*

26. *Deferred credits.* State separately in the balance sheet amounts for (a) deferred income taxes, (b) deferred tax credits, and (c) material items of deferred income.

Minority Interests

27. *Minority interests in consolidated subsidiaries.* State separately in a note the

amounts represented by preferred stock and the applicable dividend requirements if the preferred stock is material in relation to the consolidated stockholders' equity.

Redeemable Preferred Stocks

28. *Preferred stocks subject to mandatory redemption requirements or whose redemption is outside the control of the issuer.* (a) Include under this caption amounts

applicable to any class of stock which has any of the following characteristics: (1) it is redeemable at a fixed or determinable price on a fixed or determinable date or dates, whether by operation of a sinking fund or otherwise; (2) it is redeemable at the option of the holder; or (3) it has conditions for redemption which are not solely within the control of the issuer, such as stocks which must be redeemed out of future earnings. Amounts attributable to preferred stock which is not redeemable or is redeemable solely at the option of the issuer shall be included under § 210.5-02.29 unless it meets one or more of the above criteria.

(b) State on the face of the balance sheet the title of each issue, the carrying amount, and redemption amount. (If there is more than one issue, these amounts may be aggregated on the face of the balance sheet and details concerning each issue may be presented in the note required by paragraph (c) below.) Show also the dollar amount of any shares subscribed but unissued, and show the deduction of subscriptions receivable therefrom. If the carrying value is different from the redemption amount, describe the accounting treatment for such difference in the note required by paragraph (c) below. Also state in this note or on the face of the balance sheet, for each issue, the number of shares authorized and the number of shares issued or outstanding, as appropriate (See § 210.4-07).

(c) State in a separate note captioned "Redeemable Preferred Stocks" (1) a general description of each issue, including its redemption features (e.g. sinking fund, at option of holders, out of future earnings) and the rights, if any, of holders in the event of default, including the effect, if any, on junior securities in the event a required dividend, sinking fund, or other redemption payment(s) is not made; (2) the combined aggregate amount of redemption requirements for all issues each year for the five years following the date of the latest balance sheet; and (3) the changes in each issue for each period for which an income statement is required to be filed. (See also § 210.4-08(d).)

(d) Securities reported under this caption are not to be included under a general heading "stockholders' equity" or combined in a total with items described in captions 29, 30 or 31 which follow.

Non-Redeemable Preferred Stocks

29. *Preferred stocks which are not redeemable or are redeemable solely at the option of the issuer.* State on the face of the balance sheet, or if more than one issue is outstanding state in a note, the title of each issue and the dollar amount thereof. Show also the dollar amount of any shares subscribed but unissued, and show the deduction of subscriptions receivable

therefrom. State on the face of the balance sheet or in a note, for each issue, the number of shares authorized and the number of shares issued or outstanding, as appropriate (see § 210.4-07). Show in a note or separate statement the changes in each class of preferred shares reported under this caption for each period for which an income statement is required to be filed. (See also § 210.4-08(d).)

Common Stocks

30. *Common stocks.* For each class of common shares state, on the face of the balance sheet, the number of shares issued or outstanding, as appropriate (see § 210.4-07), and the dollar amount thereof. If convertible, this fact should be indicated on the face of the balance sheet. For each class of common shares state, on the face of the balance sheet or in a note, the title of the issue, the number of shares authorized, and, if convertible, the basis of conversion (see also § 210.4-08(d)). Show also the dollar amount of any common shares subscribed but unissued, and show the deduction of subscriptions receivable therefrom. Show in a note or statement the changes in each class of common shares for each period for which an income statement is required to be filed.

Other Stockholders' Equity

31. *Other stockholders' equity.* (a) Separate captions shall be shown for (1) additional paid-in capital, (2) other additional capital and (3) retained earnings (i) appropriated and (ii) unappropriated. (See § 210.4-08(e).) Additional paid-in capital and other additional capital may be combined with the stock caption to which it applies, if appropriate.

(b) For a period of at least 10 years subsequent to the effective date of a quasi-reorganization, any description of retained earnings shall indicate the point in time from which the new retained earnings dates and for a period of at least three years shall indicate, on the face of the balance sheet, the total amount of the deficit eliminated.

(c) A summary of each account under this caption setting forth the information prescribed in Rule 11-02 (§ 210.11-02) shall be given in a note or separate statement, for each period for which an income statement is required to be filed.

32. *Total liabilities and stockholders' equity.*

§ 210.5-03 Income statements.

(a) The purpose of this rule is to indicate the various line items which, if applicable, and except as otherwise permitted by the Commission, should appear on the face of the income statements filed for the persons to whom this article pertains (see § 210.4-01(a)).

(b) If income is derived from more than one of the subcaptions described under § 210.5-03.1, each class which is not more than 10 percent of the sum of the items may be combined with another class. If these items are combined, related costs and expenses as described under § 210.5-03.2 shall be combined in the same manner.

1. *Net sales and gross revenues.* State separately:

(a) net sales of tangible products (gross sales less discounts, returns and allowances), (b) operating revenues of public utilities or others; (c) income from rentals; (d) revenues from services; and (e) other revenues. Amounts earned from transactions with related parties shall be disclosed as required under § 210.4-08(k). A public utility company using a uniform system of accounts or a form for annual report prescribed by federal or state authorities, or a similar system or report, shall follow the the general segregation of operating revenues and operating expenses reported under § 210.5-03.2 prescribed by such system or report. If the total of sales and revenues reported under this caption includes excise taxes in an amount equal to 1 percent or more of such total, the amount of such excise taxes shall be shown on the face of the statement parenthetically or otherwise.

2. *Costs and expenses applicable to sales and revenues.*

State separately the amount of (a) cost of tangible goods sold, (b) operating expenses of public utilities or others, (c) expenses applicable to rental income, (d) cost of services, and (e) expenses applicable to other revenues. Merchandising organizations, both wholesale and retail, may include occupancy and buying costs under caption 2(a). Amounts of costs and expenses incurred from transactions with related parties shall be disclosed as required under § 210.4-08(k).

3. *Other operating costs and expenses.* State separately any material amounts not included under caption 2 above.

4. *Selling, general and administrative expenses.*

5. *Provision for doubtful accounts and notes.*

6. *Other general expenses.* Include items not normally included in caption 4 above. State separately any material item.

7. *Non-operating income.* State separately amounts earned from (a) dividends, (b) interest on securities, (c) profits on securities (net of losses), and (d) miscellaneous other income. Amounts earned from transactions in securities of related parties shall be disclosed as required under § 210.4-08(k). Material amounts included under miscellaneous other income shall be separately stated, indicating clearly the nature of the transactions out of which the items arose.

8. *Interest and amortization of debt discount and expense.*

9. *Non-operating expenses.* State separately amounts of (a) losses on securities (net of profits) and (b) miscellaneous income deductions. Material amounts included under miscellaneous income deductions shall be separately stated, indicating clearly the nature of the transactions out of which the items arose.

10. *Income or loss before income tax expense and appropriate items below.*

11. *Income tax expense.* Include under this caption only taxes based on income (see § 210.4-08(g)).

12. *Minority interest in income of consolidated subsidiaries.*

13. *Equity in earnings of unconsolidated subsidiaries and 50 percent or less owned*

persons. State, parenthetically or in a note, the amount of dividends received from such persons. If justified by the circumstances, this item may be presented in a different position and a different manner (see § 210.4-01(a)).

14. *Income or loss from continuing operations.*

15. *Discontinued operations.*

16. *Income or loss before extraordinary items and cumulative effects of changes in accounting principles.*

17. *Extraordinary items, less applicable tax.*

18. *Cumulative effects of changes in accounting principles.*

19. *Net income or loss.*

20. *Earnings per share data.*

§ 210.5-04 What schedules are to be filed.

(a) Except as expressly provided otherwise in the applicable form—

(1) The schedules specified below in this section as Schedules I, VII, XI, XII, and XIII shall be filed as of the dates of the most recent audited balance sheet for each person or group.

(2) All other schedules specified below in this section as Schedules II, III, IV, V, VI, VIII, IX, and X shall be filed for each period for which an income statement is required to be filed for each person or group.

(b) When information is required in schedules for both the registrant and the registrant and its subsidiaries consolidated it may be presented in the form of a single schedule: *Provided*, That items pertaining to the registrant are separately shown and that such single schedule affords a properly summarized presentation of the facts. If the information required by any schedule (including the notes thereto) may be shown in the related financial statement or in a note thereto without making such statement unclear or confusing, that procedure may be followed and the schedule omitted.

(c) The schedules shall be examined by the independent accountant if the related financial statements are so examined.

Schedule I—Marketable securities—other investments.

The schedule prescribed by § 210.12-02 shall be filed—

(1) In support of caption 2 of a balance sheet, if the greater of the aggregate cost or the aggregate market value of marketable securities as of the balance sheet date constitutes 10 percent or more of total assets.

(2) In support of caption 12 of a balance sheet, if the greater of the aggregate cost or the aggregate market value of other investments as of the balance sheet date constitutes 10 percent or more of total assets.

(3) In support of captions 2 and 12 of a balance sheet, if the greater of the aggregate cost or aggregate market of other investments plus the greater of the aggregate cost or the aggregate market value of marketable securities as of the balance sheet date constitutes 15 percent or more of total assets.

(4) In support of captions 2 and 12 of a balance sheet, if the greater of the aggregate cost or aggregate market value of the securities as of the balance sheet date of any issuer reported under either caption 2 or caption 12 constitutes 2 percent or more of total assets.

Schedule II—Amounts receivable from related parties and underwriters, promoters, and employees other than related parties. The schedule prescribed by § 210.12-03 shall be filed with respect to each person among related parties and underwriters, promoters, and employees other than related parties, from whom an aggregate indebtedness of more than \$100,000 or 1 percent of total assets, whichever is less, is owed, or at any time during the period for which related income statements are required to be filed was owed. This schedule shall not include information which is prescribed by § 210.12-05. For the purposes of this schedule, exclude in the determination of the amount of indebtedness all amounts receivable from such persons for purchases subject to usual trade terms, for ordinary travel and expense advances and for other such items arising in the ordinary course of business.

Schedule III—Investments in, equity in earnings of, and dividends received from related parties. The schedule prescribed by § 210.12-04 shall be filed in support of caption 10 of each balance sheet. This schedule may be omitted if (1) neither the sum of captions 10 and 11 in the related balance sheet nor the amount of caption 23 in such balance sheet exceeds 5 percent of total assets as shown by the related balance sheet at either the beginning or end of the period, or (2) there have been no material changes in the information required to be filed from that last previously reported.

Schedule IV—Indebtedness of and to related parties—not current. The schedule prescribed by § 210.12-05 shall be filed in support of captions 11 and 23 of each balance sheet; however, the required information may be presented separately on Schedule III. This schedule may be omitted if (1) neither the sums of captions 10 and 11 in the related balance sheet nor the amount of caption 23 in such balance sheet exceeds 5 percent of total assets as shown by the related balance sheet at either the beginning or end of the period, or (2) there have been no material changes in the information required to be filed from that last previously reported.

Schedule V—Property, plant and equipment. The schedule prescribed by § 210.12-06 shall be filed in support of caption 13 of each balance sheet, provided that this schedule may be omitted if the total shown by caption 13 does not exceed 5 percent of total assets as shown by the related balance sheet at both the beginning and end of the period and if neither the additions nor the deductions during the period exceeded 5 percent of total assets as shown by the related balance sheet at either the beginning or end of the period.

Schedule VI—Accumulated depreciation, depletion, and amortization of property, plant and equipment. The schedule prescribed by § 210.12-07 shall be filed in support of caption 14 of each balance sheet. This schedule may be omitted if Schedule V is omitted.

Schedule VII—Guarantees of securities of other issuers. The schedule prescribed by § 210.12-08 shall be filed with respect to any guarantees of securities of other issuers by the person for which the statement is filed.

Schedule VIII—Valuation and qualifying accounts. The schedule prescribed by § 210.12-09 shall be filed in support of valuation and qualifying accounts included in each balance sheet but not included in Schedule VI. (See § 210.4-02.)

Schedule IX—Short-term borrowings. The schedule prescribed by § 210.12-10 shall be filed in support of caption 19, amounts payable to banks for borrowings; factors and financial institutions for borrowings; and holders of commercial paper. The information required by this schedule may be presented in Management's Discussion and Analysis if it results in a more meaningful presentation of the information being provided.

Schedule X—Supplementary income statement information. The schedule prescribed by § 210.12-11 may be omitted for each income statement in which sales or operating revenues were not of significant amount. This schedule may also be omitted if the information required by column B and instructions 3 and 5 thereof is furnished in the income statement or in a note thereto.

Schedule XI—Real estate and accumulated depreciation. The schedule prescribed by § 210.12-28 shall be filed for real estate (and the related accumulated depreciation) held by persons a substantial portion of whose business is that of acquiring and holding for investment real estate or interests in real estate, or interests in other persons a substantial portion of whose business is that of acquiring and holding real estate or interests in real estate for investment. Real estate used in the business shall be excluded from the schedule.

Schedule XII—Mortgage loans on real estate. The schedule prescribed by § 210.12-29 shall be filed by persons specified under Schedule XI for investments in mortgage loans on real estate.

Schedule XIII—Other investments. If there are any other investments, under caption 12 of § 210.5-02 or elsewhere in a balance sheet, not required to be included in Schedule I or III, there shall be set forth in a separate schedule information concerning such investments corresponding to that prescribed by Schedule I. This schedule may be omitted if the total amount of such other investments does not exceed 5 percent of total assets as shown by such balance sheet.

5. By revising § 210.6-10 to read as follows:

§ 210.6-10 What schedules are to be filed.

(a) Except as otherwise expressly provided in the applicable form:

(1) The schedules specified below in this section as Schedules I and VII shall be filed as of the date of the most recent balance sheet filed for each person and for each group for which separate statements are filed. Such schedules shall be certified if the related balance sheet is certified.

(2) All other schedules specified below in this section shall be filed for

each period for which a statement of income and expense is filed. Such schedules shall be certified if the related statement of income and expense is certified.

(b) The information required in schedules for the registrant, for the consolidated subsidiaries and for the registrant and its subsidiaries consolidated may be presented in the form of a single schedule: *Provided*, That items pertaining to the registrant and to each consolidated subsidiary or group for which separate statements are required are separately shown and that such single schedule affords a properly summarized presentation of the facts.

(c) If the information required by any schedule (including the footnotes thereto) may be shown in the statements required by §§ 210.6-03 to 210.6-09 (Rules 6-03 to 6-09) without making such statements unclear or confusing, that procedure may be followed and the schedule omitted.

A. Investment Schedules

Schedule I—Investments in securities of unaffiliated issuers. The schedule prescribed by § 210.12-12 (Rule 12-12) shall be filed in support of caption 7 of each balance sheet (§ 210.6-03).

Schedule II—Investments, other than securities. The schedule prescribed by § 210.12-13 (Rule 12-13) shall be filed in support of caption 8 of each balance sheet (§ 210.6-03). This schedule may be omitted if the investments, other than securities, at both the beginning and end of the period amount to less than 1 percent of total assets or \$50,000, whichever is less.

Schedule III—Investments in affiliates. The schedule prescribed by § 210.12-14 (Rule 12-14) shall be filed in support of caption 9 of each balance sheet (§ 210.6-03).

B. Miscellaneous Schedules

Schedule IV—Amounts due from directors and officers. The schedule prescribed by § 210.12-03 (Rule 12-03) shall be filed with respect to each person among the directors and officers from whom any amount was owed at any time during the period for which related statements of income and expense are filed.

Schedule V—Indebtedness to affiliates. The schedule prescribed by § 210.12-05 (Rule 12-05) shall be filed in support of caption 16(b). This schedule and schedule III may be combined if desired.

Schedule VI—Valuation and qualifying accounts. The schedule prescribed by § 210.12-09 (Rule 12-09) shall be filed in support of all reserves included in the balance sheet (§ 210.6-03).

Schedule VII—Guarantees of securities of other issuers. The schedule prescribed by § 210.12-08 shall be filed with respect to any guarantees of securities of other issuers by the person for which the statement is filed.

Schedule VIII—Short-term borrowings. The schedule prescribed by § 210.12-10 shall be filed in support of caption 12, amounts payable to banks for borrowings; factors and

financial institutions for borrowings; and holders of commercial paper, of each balance sheet (§ 210.6-03).

6. By revising § 210.6-13 to read as follows:

§ 210.6-13 What schedules are to be filed.

(a) Schedule IV, specified below, shall be filed as of the date of the most recent statement of condition filed. The other schedules specified shall be filed for each period for which a statement of income and distributable funds is filed. All schedules shall be certified.

Schedule I—Investment in securities. The schedule prescribed by § 210.12-19 (Rule 12-19) shall be filed in support of caption 1 of each statement of condition and of captions 1 and 2 of each statement of income and distributable funds.

Schedule II—Trust shares. The schedule prescribed by § 210.12-20 (Rule 12-20) shall be filed in support of caption 8 of each statement of condition.

Schedule III—Gain or loss from transactions in trust property. A schedule shall be submitted showing for each investment set forth in Schedule I in which there were any sales or redemptions during the period: (a) The aggregate amount received from sale; (b) the aggregate cost of the investment sold; and (c) the realized gain or loss thereon.

Schedule IV—Allocation of trust assets to series of trust shares. If the trust assets are specifically allocated to different series of trust shares, and if such allocation is not shown in the statement of condition in columnar form or by the submission of separate statements for each series of trust shares, a schedule shall be submitted showing the amount of trust assets, indicated by each statement of condition filed, which is applicable to each series of trust shares.

Schedule V—Allocation of trust income and distributable funds to series of trust shares. If the trust income and distributable funds are specifically allocated to different series of trust shares and if such allocation is not shown in the statement of income and distributable funds in columnar form or by the submission of separate statements for each series of trust shares, a schedule shall be submitted showing the amount of income and distributable funds, indicated by each statement of income and distributable funds filed, which is applicable to each series of trust shares.

7. By revising § 210.6-24 to read as follows:

§ 210.6-24 What schedules are to be filed.

(a) Except as otherwise expressly provided in the applicable forms:

(1) The schedules specified in this section as schedules I, V, and X shall be filed as of the date of the most recent balance sheet filed for each person and for each group for which separate statements are filed. Such schedules shall be certified if the related balance sheet is certified.

(2) All other schedules specified in this section shall be filed for each period for which a profit and loss or income statement is filed, except as indicated for schedules III and IV. Such schedules shall be certified if the related profit and loss or income statement is certified.

(b) The information required in schedules for the registrant, for the consolidated subsidiaries and for the registrant and its subsidiaries consolidated may be presented in the form of a single schedule: *Provided*, That items pertaining to the registrant and to each consolidated subsidiary or group for which separate statements are required are separately shown and that such single schedule affords a properly summarized presentation of the facts.

(c) If the information required by any schedules (including the notes thereto) may be shown in the statements required by §§ 210.6-22 and 210.6-23 without making such statements unclear or confusing, that procedure may be followed and the schedule omitted.

A. Investment Schedules

Schedule I—Investment in securities of unaffiliated issuers. The schedule prescribed by § 210.12-21 shall be filed in support of captions 6(a) and 12 of each balance sheet. Separate schedules shall be furnished in support of each caption, if applicable.

Schedule II—Investments in and advances to affiliates and income thereon. The schedule prescribed by § 210.12-22 shall be filed in support of captions 10 and 13 of each balance sheet and caption 1(a) of each profit and loss or income statement. Separate schedules shall be furnished in support of each caption, if applicable.

Schedule III—Mortgage loans on real estate and interest earned on mortgages. The schedule prescribed by § 210.12-23 shall be filed in support of captions 6(b) and (c) and 12 of each balance sheet and caption 1(a)(i) of each profit and loss or income statement, except that only the information required by column G and note 8 of the schedule need be furnished in support of profit and loss or income statements for years for which related balance sheets are not required.

Schedule IV—Real estate owned and rental income. The schedule prescribed by § 210.12-24 shall be filed in support of captions 7 and 12 of each balance sheet and caption 1(a)(iv) of each profit and loss or income statement for rental income included therein, except that only the information required by columns H, I, and J, and item "Rent from properties sold during the period" and note 4 of the schedule need be furnished in support of profit and loss or income statements for years for which related balance sheets are not required.

B. Miscellaneous Schedules

Schedule V—Qualified assets on deposit. The schedule prescribed by § 210.12-27 shall be filed in support of note required by caption 11 of § 210.6-22 as to total amount of qualified assets on deposit.

Schedule VI—Amounts due from officers and directors. The schedule prescribed by § 210.12-03 shall be filed with respect to each person among the directors and officers from whom any amount was owed at any time during the period for which related profit and loss or income statements are filed. The schedule shall include also amounts due from employees. These amounts may be shown in an aggregate amount setting forth separately the amount due (1) from office employees and (2) sales employees, stating the total number of employees in each class. State if an exemption has been granted by the Commission with respect to amounts included in this schedule.

Schedule VII—Short-term borrowings. The schedule prescribed by § 210.12-10 shall be filed in support of caption 17(a), amounts payable to banks for borrowings; factors and financial institutions for borrowings; and holders of commercial paper, of each balance sheet.

Schedule VIII—Indebtedness to affiliates, not current. The schedule prescribed by § 210.12-05 shall be filed in support of caption 20 of each balance sheet. This schedule and schedule II may be combined if desired.

Schedule IX—Supplementary profit and loss information. The schedule prescribed by § 210.12-25 shall be filed in support of each profit and loss or income statement.

Schedule X—Guarantees of securities of other issuers. The schedule prescribed by § 210.12-08 shall be filed with respect to any guarantees of securities of other issuers by the person for which the statement is filed.

C. Reserve Schedules

Schedule XI—Certificate reserves. The schedule prescribed by § 210.12-26 shall be filed in support of caption 16 of each balance sheet.

Schedule XII—Valuation and qualifying accounts. The schedule prescribed by § 210.12-09 shall be filed in support of all other reserves included in the balance sheet.

8. By revising § 210.6-34 to read as follows:

§ 210.6-34 What schedules are to be filed.

(a) Schedules I and II, specified below, shall be filed as of the date of each statement of financial condition filed. Schedule III shall be filed for each period for which a statement of income and changes in plan equity is filed. All schedules shall be certified if the related statements are certified.

Schedule I—Investments. A schedule substantially in form prescribed by § 210.12-12 shall be filed in support of captions 1, 2 and 3 of each statement of financial condition unless substantially all of the information is given in the statement of financial condition by footnote or otherwise.

Schedule II—Allocation of plan assets and liabilities to investment program. If the plan provides for separate investment programs with separate funds, and if the allocation of assets and liabilities to the several funds is not shown in the statement of financial condition in columnar form or by the

submission of separate statements for each fund, a schedule shall be submitted showing the allocation of each caption of each statement of financial condition filed to the applicable fund.

Schedule III—Allocation of plan income and changes in plan equity to investment programs. If the plan provides for separate investment programs with separate funds, and if the allocation of income and changes in plan equity to the several funds is not shown in the statement of income and changes in plan equity in columnar form or by the submission of separate statements for each fund, a schedule shall be submitted showing the allocation of each caption of each statement of income and changes in plan equity filed to the applicable fund.

9. By revising § 210.7-06 to read as follows:

§ 210.7-06 What schedules are to be filed.

(a) Except as expressly provided otherwise in the applicable form—

(1) The schedules specified below in this rule as Schedules I and VII shall be filed as of the dates of the most recent audited balance sheet for each person or group.

(2) All other schedules specified below in this rule as Schedules II, III, IV, V, and VI shall be filed for each period for which an income statement is required to be filed for each person or group.

(b) When information is required in schedules for both the registrant and its consolidated subsidiaries it may be presented in the form of a single schedule: *Provided*, That items pertaining to the registrant are separately shown and that such single schedule affords a properly summarized presentation of the facts. If the information required by any schedule (including the notes thereto) may be shown in the related financial statement or in a note thereto without making such statement unclear or confusing, that procedure may be followed and the schedule omitted.

(c) The schedules shall support the financial statements prepared in accordance with generally accepted accounting principles except for statements prepared in accordance with § 210.7-02(d).

(d) The schedules shall be examined by the independent accountant if the related financial statements are so examined.

Schedule I—Summary of investments, other than investments in affiliates. The schedule prescribed by § 210.12-15 shall be filed in support of caption 1 of each balance sheet.

Schedule II—Investments in, equity in earnings of, and dividends received from the related parties. The schedule prescribed by § 210.12-04 shall be filed, for each period for which an income statement is required to be

filed, in support of caption 3(a) of each balance sheet. This schedule may be omitted if neither the sum of captions 3(a) and 3(b) in the related balance sheet nor the amount of caption 15 in such balance sheet exceeds 5 percent of total assets as shown by the related balance sheet at either the beginning or end of the period.

Schedule III—Indebtedness of and to related parties, not current. The schedule prescribed by § 210.12-05 shall be filed, for each period for which an income statement is required to be filed, in support of captions 3(b) and 15 of each balance sheet; however, the required information may be presented separately on Schedule II. This schedule may be omitted if neither the sums of captions 3(a) and 3(b) in the related balance sheet nor the amount of caption 15 in such balance sheet exceeds 5 percent of total assets as shown by the related balance sheet at either the beginning or end of the period.

Schedule IV—Amounts receivable from related parties, and underwriters, promoters, and employees other than related parties. The schedule prescribed by § 210.12-03 shall be filed, for each period for which an income statement is required to be filed, with respect to each person among related parties and underwriters, promoters, and employees other than related parties, from whom an aggregate indebtedness of more than \$20,000 or 1 percent of total assets, whichever is less, is owed, or at any time during the period for which related income statements are required to be filed was owed. This schedule shall not include information which is prescribed by § 210.12-05. For purposes of this schedule exclude in the determination of the amount of indebtedness all amounts receivable from such persons for purchases subject to usual trade terms, for ordinary travel and expense advances, and for other such items arising in the ordinary course of business.

Schedule V—Valuation and qualifying accounts. The schedule prescribed by § 210.12-09 shall be filed for each period for which an income statement is required to be filed, in support of valuation and qualifying accounts included in each balance sheet (see § 210.4-02).

Schedule VI—Premiums, losses and claims and policy acquisition costs. The schedule prescribed by § 210.12-18 shall be filed, for each period for which an income statement is required to be filed, in support of captions 8 and 12 of each balance sheet and captions 1(a), 1(c), 4(a), 4(b) and 5 of each income statement.

Schedule VII—Guarantees of securities of other issuers. The schedule prescribed by § 210.12-08 shall be filed with respect to any guarantees of securities of other issuers by the person for which the statement is being filed.

10. By revising § 210.7A-06 to read as follows:

§ 210.7A-06 What schedules are to be filed.

(a) Except as expressly provided otherwise in the applicable form—

(1) The schedules specified below in this rule as Schedules I, VII, and VIII shall be filed as of the date of the most

recent audited balance sheet being filed for each person or group.

(2) All other schedules specified below in this rule as Schedules II, III, IV, V, and VI shall be filed for each period for which an income statement is required to be filed for each person or group.

(b) When information is required in schedules for both the registrant and the registrant and its consolidated subsidiaries it may be presented in the form of a single schedule: *Provided*, That items pertaining to the registrant are separately shown and that such single schedule affords a properly summarized presentation of the facts. If the information required by any schedule (including the notes thereto) may be shown in the related financial statement or in a note thereto without making such statement unclear or confusing, that procedure may be followed and the schedule omitted.

(c) The schedules shall support the financial statements prepared in accordance with generally accepted accounting principles except for statements prepared in accordance with § 210.7A-02(d).

(d) The schedules shall be examined by the independent accountant if the related financial statements are so examined.

Schedule I—Summary of investments, other than investments in affiliates. The schedule prescribed by § 210.12-15 shall be filed in support of caption 1 of each balance sheet.

Schedule II—Investments in equity in earnings of, and dividends received from related parties. The schedule prescribed by § 210.12-04 shall be filed in support of caption 3(a) of each balance sheet. This schedule may be omitted if neither the sum of captions 3(a) and 3(b) in the related balance sheet nor the amount of caption 15 in such balance sheet exceeds 5 percent of total assets as shown by the related balance sheet at either the beginning or end of the period.

Schedule III—Indebtedness of and to related parties—not current. The schedule prescribed by § 210.12-05 shall be filed in support of captions 3(b) and 15 of each balance sheet; however, the required information may be presented separately on Schedule II. This schedule may be omitted if neither the sums of captions 3(a) and 3(b) in the related balance sheet nor the amount of caption 15 in such balance sheet exceeds 5 percent of total assets as shown by the related balance sheet at either the beginning or end of the period.

Schedule IV—Deferred policy acquisition costs. The schedule prescribed by § 210.12-18 shall be filed in support of caption 6 of each balance sheet provided that this schedule may be omitted if the total shown by caption 6 does not exceed five percent of total assets as shown by the related balance sheet at both the beginning and end of the period and if neither the additions nor the deductions

during the period exceeded five percent of total assets as shown by the related balance sheet at either the beginning or end of the period.

Schedule V—Amounts receivable from related parties and underwriters, promoters, and employees other than related parties. The schedule prescribed by § 210.12-03 shall be filed with respect to each person among related parties and underwriters, promoters, and employees other than related parties, from whom an aggregate indebtedness of more than \$20,000 or 1 percent of total assets, whichever is less, is owed, or at any time during the period for which related income statements are required to be filed was owed. This schedule shall not include information which is prescribed by § 210.12-05. For the purposes of this schedule exclude in the determination of the amount of indebtedness all amounts receivable from such persons for purchases subject to usual trade terms, for ordinary travel and expense advances, and for other such items arising in the ordinary course of business.

Schedule VI—Valuation and qualifying accounts. The schedule prescribed by § 210.12-09 shall be filed in support of valuation and qualifying accounts included in each balance sheet (see § 210.4-02).

Schedule VII—Future policy benefits and insurance in force. The schedule prescribed by § 210.12-17 shall be filed in support of caption 11 of each balance sheet. The schedule prescribed by § 210.12-16 shall be used insofar as it may more appropriately support the liability for future policy benefits of accident and health insurance at caption 11(b) which are based on unearned premiums.

Schedule VIII—Guarantees or securities of other issuers. The schedules prescribed by § 210.12-08 shall be filed with respect to any guarantees of securities of other issuers by the person for which the statement is being filed.

11. By revising paragraphs (b) (1) and (2) of § 210.9-01 to read as follows:

§ 210.9-01 Application of §§ 210.9-01 to 210.9-05.

* * *

(b) * * *

(1) On the balance sheet, (i) current assets and current liabilities need not be separately classified from other assets and liabilities respectively, and (ii) in lieu of amounts of investments in, equity in earnings of, dividends received from, indebtedness of and to related parties to be reported at §§ 210.5-02.10, .11, and .23 and on Schedules III and IV, there shall be substituted amounts of securities and indebtedness of and to affiliates and entities for which investments are accounted for by the equity method. The references to related parties in §§ 210.5-02.3 and .19 and in Schedule II shall be limited to affiliates and entities for which investments are accounted for by the equity method. Securities and indebtedness of and to

banks shall be shown separately from amounts for other persons; and

(2) On the income statement dividends received from unconsolidated subsidiaries and 50 percent or less owned persons shall be shown as the first item on the statement, and the amount to be reported at § 210.5-03.13 shall be the equity in undistributed earnings of unconsolidated subsidiaries and 50 percent or less owned persons. Dividends and equity in undistributed earnings related to banks shall be shown separately from amounts for other persons. Disclosures related to transactions with related parties required under §§ 210.5-03.1, .2, and .7 shall be limited to unconsolidated subsidiaries and 50 percent or less owned persons.

* * *

12. By removing from § 210.9-02.17 paragraph (a) and the designation of the second paragraph as (b).

13. By revising § 210.9-05 to read as follows:

§ 210.9-05 What schedules are to be filed.

(a) Except as expressly provided otherwise in the applicable form—

(1) Schedule III, specified below, shall be filed as of the dates of the most recent audited balance sheet for each person or group.

(2) The other schedules specified below in the rule as schedules I and II shall be filed for each period for which an income statement is required to be filed for each person or group.

(b) If the information required by any schedule (including the notes thereto) may be shown in the related financial statement or in a note thereto without making such statement unclear or confusing, that procedure may be followed and the schedule omitted.

(c) The schedules shall be examined by the independent accountant if the related financial statements are so examined.

(d) The schedules prescribed by §§ 210.12-04 and 210.12-05 shall be filed in support of subcaptions 9(c) and 14(b) of each balance sheet and shall be designated schedules IV and V, respectively. These schedules shall be filed for each period for which an income statement is required to be filed. These schedules may be omitted if (1) neither the amount required to be reported in a note under subcaption 9(c) in the related balance sheet nor the amount required to be reported in a note under subcaption 14(b) in such balance sheet exceeds 5 percent of stockholders' equity as shown by the related balance sheet at either the beginning or end of the period, or (2) there have been no material changes in the information

required to be filed from that last previously reported.

Schedule I—Amounts receivable from certain persons. The schedule prescribed by § 210.12-03 shall be filed with respect to indebtedness of more than \$500,000 or 2.5 percent of stockholders' equity, whichever is less, which is owed or, at any time during the period for which related income statements are required to be filed, was owed by each person (including those referred to below) related to the reporting person or any of its principal subsidiaries as director, executive officer,³ or principal holder of equity securities. Indebtedness to be reported for a director, officer or principal holder of equity securities shall include the aggregate of indebtedness owed by such person and indebtedness owed by any of the following which are related to such person: (1) Any corporation, venture or organization of which any of the foregoing persons is a general partner or is, directly or indirectly, the beneficial owner of 10 percent or more of any class of equity securities, (2) any trust or other estate in which any of the foregoing persons has a substantial beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity and (3) any relative or spouse of any of the foregoing persons, or any relative of such spouse, who has the same home as such person. Indebtedness to be reported shall include amounts owed to the parent company or any consolidated subsidiary. Notwithstanding the foregoing and the requirement of Column A of § 210.12-03, indebtedness incurred in the

ordinary course of business by directors (and related persons specified above) who are neither executive officers nor principal holders of equity securities may be stated in the aggregate in Columns B, C, D and E of § 210.12-03 and need not be reported on an individual basis. The number of directors whose indebtedness is included in the aggregate amount shall be stated in Column A. It shall not be necessary to include in the individual or aggregate indebtedness reported those amounts related to installment loans as defined in § 210.9-02.5(c)(3) made in the ordinary course of business. For the purpose of this schedule, loans or indebtedness made or incurred in the ordinary course of business shall be those which (i) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons, and (ii) did not involve more than normal risk of collectibility or present other unfavorable features.

Schedule II—Valuation and qualifying accounts. The schedule prescribed by § 210.12-09 shall be filed in support of valuation and qualifying accounts included in each balance sheet excluding the allowances for loan losses and real estate losses.

Schedule III—Guarantees of securities of other issuers. The schedule prescribed by § 210.12-08 shall be filed with respect to any guarantees of securities of other issuers by the person for which the statement is being filed.

14. By deleting present §§ 210.12-08, 09, 11, 14, 15, 17, 18, 20, 23, 24, 25, 26, 28, 30, and 32; and by revising, amending, and redesignating the remaining rules as follows:

15. Section 210.12-01 is revised to read as follows:

Form and Content of Schedules General

§ 210.12-01 Application of §§ 210.12-01 to 210.12-27.

These sections prescribe the form and content of the schedules required by §§ 210.5-04, 210.6-10, 210.6-13, 210.6-24, 210.6-34, 210.7-06, 210.7A-06 and 210.9-05. The heading of § 210.12-02 is revised to read as follows:

§ 210.12-02 Marketable securities—other investments.

16. No change from present schedule format.

17. The heading of § 210.12-03 is revised to read as follows:

§ 210.12-03 Amounts receivable from related parties and underwriters, promoters, and employees other than related parties.

17a. No change from present schedule format of § 210.12-03.

18. § 210.12-04 is revised to read as follows:

§ 210.12-04 Investments in, equity in earnings of, and dividends received from related parties.

³ See footnote 1 for definition of "principal subsidiaries," "executive officer" and "relative."

Col. A		Col. B		Col. C		Col. D		Col. E		Col. F
		Balance at beginning of period		Additions		Deductions		Balance at end of period		
		(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	
Name of issuer and description of investment ¹	Number of shares or units. ² Principal amount of bonds and notes		Amount in dollars	Equity taken up in earnings (losses) of related parties for the period ³	Other ⁴	Distribution of earnings by persons in which earnings (losses) were taken up ⁵	Other ⁶	Number of shares or units. ² Principal amount of bonds and notes	Amount in dollars ⁷	Dividends received during the period from investments not accounted for by the equity method ⁸

¹ (a) Group separately securities of (1) subsidiaries consolidated, (2) subsidiaries not consolidated, and (3) other related parties, the investments in which are accounted for by the equity method, showing shares and bonds separately in each case. Investments in individual related parties which, when considered with related advances, exceed 2 percent of total assets shall be stated separately. Dividends from (1) marketable securities and (2) other security investments shall also be included and may be shown in separate aggregate amounts.

(b) Those foreign investments, the enumeration of which would be detrimental to the registrant, may be grouped.

² Disclose, in the column or in a note hereto, the percentage of ownership interest represented by the shares or units, if material.

³ The total of column C(1) shall be reconciled with the amount of the related income statement caption.

⁴ Briefly describe each item in column C(2); if the cost thereof represents other than a cash expenditure, explain. If acquired from a related party (and not an original issue of that related party) at other than cost to the related party, show such cost, provided the acquisition by the related party was 2 years prior to the acquisition by the person for which the statement is filed.

⁵ As to any dividends other than cash, state the basis on which they have been taken up in the accounts, and the justification for such action. If any such dividends received from related parties have been credited in the accounts in an amount differing from that charged to retained earnings by the disbursing company, state the amount of such difference and explain.

⁶ Briefly describe each item in column D(2) and state: (a) Cost of items sold and how determined; (b) amount received (if other than cash, explain); and (c) disposition of resulting profit or loss.

⁷ The total (or a sub-total) of column E(2) shall be reconciled with the amount reported under caption 10 of the related balance sheet.

19. Section 210.12-05 is revised to read as follows:

§ 210.12-05 Indebtedness of and to related parties—not current.

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F	Col. G	Col. H	Col. I
		Indebtedness of—		Indebtedness to—				
Name of person ¹	Balance at beginning	Additions ²	Deductions ³	Balance at end	Balance at beginning	Additions ²	Deductions ³	Balance at end

¹ The persons named shall be grouped as in the related schedule required for investments in related parties. The information called for shall be shown separately for any persons whose investments were shown separately in such related schedule.

² For each person named in column A, explain in a note the nature and purpose of any increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

³ If deduction was other than a receipt or disbursement of cash, explain.

§ 210.12-06 Property, plant and equipment.^{1, 7}

20. No change from present schedule format. However, footnote designation 7 is added to the heading and note 7 is added as follows:

⁷ Disclosure shall be made of the methods and, if practicable, the rates used in computing the annual provision for depreciation, depletion, obsolescence, and amortization of physical properties and capitalized leases.

¹ Indicate in a note the general terms (as well as formal provisions for the extension of maturity) of each category of aggregate short-term borrowings.

§ 210.12-10 Short-term borrowings.¹

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Category of aggregate short-term borrowings ¹	Balance at end of period	Weighted average interest rate	Maximum amount outstanding during the period ²	Average amount outstanding during the period ³	Weighted average interest rate during the period ³

¹ The categories of short-term borrowings are amounts payable to banks for borrowings; factors or other financial institutions for borrowings; and holders of commercial paper.

² Indicate the maximum amount outstanding at any month end (or similar time period) during the period.

³ Indicate the means used to compute such average.

25. Section 210.12-16 is redesignated § 210.12-11 and the redesignated section is revised to read as follows:

§ 210.12-11 Supplementary income statement information.

Col. A ¹	Col. B ²
Item	Charged to costs and expenses

1. Maintenance and repairs.....
2. Depreciation and amortization of intangible assets, preoperating costs and similar deferral³.....
3. Taxes, other than payroll and income taxes⁴.....
4. Royalties.....
5. Advertising costs⁵.....

¹ State, for each of the items noted in column A which exceeds 1 percent of total sales and revenues as reported in the related income statement, the amount called for in column B.

² Totals may be stated in column B without further designation of the accounts to which charged.

³ State separately each category of cost amortized.

⁴ State separately each category of tax which exceeds 1 percent of total sales and revenues.

⁵ This item shall include all costs related to advertising the company's name, products or services in newspapers, periodicals or other advertising media.

§ 210.12-07 Accumulated depreciation, depletion and amortization of property, plant and equipment.¹

21. No change.

§ 210.12-08 Guarantees of securities of other issuers.¹

22. Section 210.12-12 is redesignated § 210.12-08.

§ 210.12-09 Valuation and qualifying accounts.

23. § 210.12-13 is redesignated

§ 210.12-09.

24. Section 210.12-10 is revised to read as follows:

For Management Investment Companies

§ 210.12-12 Investments in securities of unaffiliated issuers.

26. Section 210.12-19 is redesignated § 210.12-12.

§ 210.12-13 Investments; other than securities.

27. Section 210.12-21 is redesignated § 210.12-13.

§ 210.12-14 Investments in affiliates.

28. Section 210.12-22 is redesignated § 210.12-14.

§ 210.12-15 Summary of investments—other than investments in affiliates.

29. Section 210.12-27 is redesignated § 210.12-15.

§ 210.12-16 Premiums, losses and claims, and policy acquisition costs.

30. Section 210.12-29 is redesignated § 210.12-16.

§ 210.12-17 Future policy benefits and insurance in force.

31. Section 210.12-31 is redesignated § 210.12-17.

§ 210.12-18 Deferred policy acquisition costs.

32. Section 210.12-31a is redesignated § 210.12-18.

For Unit Investment Trusts, and for Those Unincorporated Management Investment Companies Which Are Issuers of Periodic Payment Plan Certificates

§ 210.12-19 Investments in securities.

33. Section 210.12-33 is redesignated § 210.12-19.

§ 210.12-20 Trust shares.

34. Section 210.12-34 is redesignated § 210.12-20.

For Face-Amount Certificate Investment Companies

§ 210.12-21 Investments in securities of unaffiliated issuers.

35. Section 210.12-35 is redesignated § 210.12-21.

§ 210.12-22 Investments in and advances to affiliates and income thereon.

36. Section 210.12-36 is redesignated § 210.12-22.

§ 210.12-23 Mortgage loans on real estate and interest earned on mortgages.

37. Section 210.12-37 is redesignated § 210.12-23.

§ 210.12-24 Real estate owned and rental income.

38. Section 210.12-38 is redesignated § 210.12-24.

§ 210.12-25 Supplementary profit and loss information.

39. Section 210.12-39 is redesignated § 210.12-25

§ 210.12-26 Certificate reserves.

40. Section 210.12-40 is redesignated § 210.12-26.

§ 210.12-27 Qualified assets on deposit.

41. Section 210.12-41 is redesignated § 210.12-27.

For Certain Real Estate Companies**§ 210.12-28 Real estate and accumulated depreciation.**

42. Section 210.12-42 is redesignated § 210.12-28.

§ 210.12-29 Mortgage loans on real estate.

43. Section 210.12-43 is redesignated § 210.12-29.

44. The following table serves to revise certain cross-references within §§ 210.1-01 to 210.12-29 (Regulation S-X). The first column identifies the location of the reference, the second column indicates the old reference which is deleted, and the third column indicates the new reference which is to be presented in the place of the old reference.

Location of reference	Old reference	New reference
§ 210.1-01(c)	§ 210.3-18	§ 210.4-10.
§ 210.2-02(e)	§ 210.3-16(i)	Item 12 of Regulation S-K (§ 229.20).
§ 210.6-02 (introductory text)	§§ 210.1-01 to 210.4-14 (Articles 1, 2, 3, and 4).	§§ 210.1-01 to 210.4-10 (Articles 1, 2, 3, and 4).
§ 210.6-02(c)(1)	§§ 210.4-01 to 210.4-14 (Article 4)	§§ 210.3A-01 to 210.3A-14 (Article 3A).
§ 210.6-02(k)	§ 210.3-02 (Rule 3-02)	§ 210.4-02.
§ 210.6-03-12	§ 210.5-02.25 (b) and (c)	§ 210.5-02.19(b).
§ 210.6-21 (introductory text)	§§ 210.1-01 to 210.4-14	§§ 210.1-01 to 210.4-10.
§ 210.6-21(c)(1)	§§ 210.4-01 to 210.4-14	§§ 210.3A-01 to 210.3A-14.
§ 210.6-21(h)	§ 210.3-02 and 210.3-03(a)	§§ 210.4-02 and 210.4-03(a).
§ 210.6-22-17(a)(ii)	§ 210.5-02.25 (b) and (c)	§ 210.5-02.19(b).
§ 210.6-31 (introductory text)	§§ 210.1-01 to 210.4-14	§§ 210.1-01 to 210.4-10.
§ 210.7-02(a)	§§ 210.1-01-210.1-02, 210.2-01-210.2-05, 210.3-01-210.3-16, and 210.4-01-210.4-08.	§§ 210.1-01-210.1-02, 210.2-01-210.2-05, 210.3A-01-210.3A-08, and 210.4-01-210.4-08.
§ 210.7-03(a)-14	§ 210.5-02.29	§ 210.5-02.22.
§ 210.7-03(a)-18	See §§ 210.3-16(i) and 210.7-05.4	See § 210.7-05.4.
§ 210.7-03(a)-19	§ 210.5-02.38	§ 210.5-02.28.
§ 210.7-03(a)-20	§ 210.5-02.39	§ 210.5-02.29.
§ 210.7-03(a)-21	[See §§ 210.3-14 and 210.3-15]	[See § 210.4-07].
	[See also § 210.3-16(f)(3)]	[See also § 210.4-08(d)].
§ 210.7-04-9	[See § 210.3-16(o)]	[See § 210.4-08(g)].
§ 210.7-05-1	[See also § 210.3-08]	Deleted.
§ 210.7-05-2	§ 210.3-16(h)	§ 210.4-06(e).
§ 210.7a-02(a)	§§ 210.1-01-1-02, 210.2-01-2-05, 210.3-01-3-16, and 210.4-01-4-09.	§§ 210.1-01-1-02, 210.2-01-2-05, 210.3A-01-3A-08, and 210.4-01-4-08.
§ 210.7a-03(a)-14	§ 210.5-02-29	§ 210.5-02.22.
§ 210.7a-03(a)-20	§§ 210.3-16(i) and 210.7a-05-6	§ 210.7a-05.6.
§ 210.7a-03(a)-21	§ 210.5-02.38	§ 210.5-02.28.
§ 210.7a-03(a)-22	§ 210.5-02.39	§ 210.5-02.29.
§ 210.7a-03(a)-23	[See § 210.3-14 and § 210.3-15]	[See § 210.4-07].
	[See also § 210.3-16(f)(3)]	[See also § 210.4-08(d)].
§ 210.7a-04-10	[See § 210.3-16(o)]	[See § 210.4-08(g)].
§ 210.7a-05-1	[See also § 210.3-08]	Deleted.
§ 210.7a-05-2	§ 210.3-16(h)	§ 210.4-06(e).
§ 210.7a-05-3	§ 210.3-16(o)	§ 210.4-08(g).
§ 210.9-01(c)	§§ 210.1-01-210.1-02, 210.2-01-210.2-05, 210.3-01-210.3-17, and 210.4-01-210.4-08.	§§ 210.1-01-210.1-02, 210.2-01-210.2-05, 210.3A-01-210.3A-08, and 210.4-01-210.4-09.
§ 210.9-02	(See paragraph (a) of § 210.3-01)	(See paragraph (a) of § 210.4-01).
§ 210.9-02-14(a)(3)	(See § 210.5-02.31)	(See § 210.5-02.23).
§ 210.9-02-14(b)	(See § 210.5-02.31)	(See § 210.5-02.23).
§ 210.9-02-15(b)	§ 210.5-02.29	§ 210.5-02.22.
	(See also § 210.5-02.30)	Deleted.
§ 210.9-02-19	§ 210.5-02.38	§ 210.5-02.28.
§ 210.9-02-20	§ 210.5-02.39	§ 210.5-02.29.
§ 210.9-02-21	§ 210.5-02.40	§ 210.5-02.30.
§ 210.9-02-22	§ 210.5-02.41	§ 210.5-02.31.
§ 210.9-03	(See paragraph (a) of § 210.3-01)	(See § 210.4-01(a)).
§ 210.9-03-17	(See § 210.3-16(o))	(See § 210.4-08(g)).
§ 210.11-01	§ 210.5-02.41	§ 210.5-02.31
§ 210.11-02	(See § 210.5-03(a))	Deleted.
§ 210.11A-02(a)	(See § 210.3-01)	(See § 210.4-01).

PART 229—STANDARD INSTRUCTIONS FOR FILING FORMS UNDER SECURITIES ACT OF 1933 AND SECURITIES EXCHANGE ACT OF 1934—REGULATION S-K

45. Section 229.20 is amended by adding new Item 12 to read as follows (Items 9-11 are added in concurrent release No. 33-6231):

§ 229.20 Information required in document.

Item 12. Supplementary financial information. (a) *Selected quarterly financial data.*

(1) Exemption. This rule shall not apply to any registrant that does not meet both of the two following tests:

(i) First test. The registrant: (A) Has securities registered pursuant to section 12(b) of the Securities Exchange Act of 1934 (other than mutual life insurance companies); or

(B) Is an insurance company that is subject to the reporting requirements of section 15(d) of that Act and has securities which also meet the tests set forth in paragraphs (a)(1)(i) (C)(1) and (C)(2) of this section; or

(C) Has securities registered pursuant to section 12(g) of that Act which also

(1) Are quoted on the National Association of Securities Dealers Automated Quotation System, and

(2) Meet the following criteria:

(i) Three or more dealers stand willing to, and do in fact, make a market in such stock, including making regularly published bona fide bids and offers for such stock for their own accounts; or the stock is registered on a securities exchange that is exempted by the Commission from registration as a national securities exchange pursuant to section 5 of the Securities Exchange Act of 1934.

(a) For purposes of this subsection, the insertion of quotations into the National Association of Securities Dealers Automated Quotation System by three or more dealers on at least 10 business days during the six month period immediately preceding the fiscal year for which the financial statements are required shall satisfy the requirement that three dealers be making a market.

(ii) There continue to be 800 or more holders of record, as defined in Rule 12g5-1 (§ 240.12g5-1) under the Exchange Act, of the stock who are not officers, directors, or beneficial owners of 10 percent or more of the stock.

(iii) The issuer continues to be a U.S. corporation.

(iv) There are 300,000 or more shares of such stock outstanding in addition to shares held beneficially by officers, directors, or beneficial owners of more than 10 percent of the stock.

(v) In addition, the issuer shall meet two of the three following requirements:

(a) The shares described in paragraph (1)(i)(C)(2)(iv) continue to have a market value of at least \$2.5 million.

(b) The minimum representative bid price of such stock is at least \$5 per share.

(c) The issuer continues to have at least \$2.5 million of capital, surplus, and undivided profits.

Instructions. 1. The computation required by (v)(a) and (v)(b) shall be based on the average of the closing representative bid prices as reported by NASDAQ for the 20 business days immediately preceding the fiscal year for which the financial statements are required.

2. The computation required by (v)(c) shall be as at the last business day of the fiscal year immediately preceding the fiscal year for which the financial statements are required.

(ii) Second test. The registrant and its consolidated subsidiaries (A) have had a net income after taxes but before extraordinary items and the cumulative effect of a change in accounting of at least \$250,000 for each of the last three fiscal years; or (B) had total assets of at least \$200,000,000 for the last fiscal year-end.

(2) Disclosure shall be made of net sales, gross profit (net sales less costs and expenses associated directly with or allocated to products sold or services rendered), income before extraordinary items and cumulative effect of a change in accounting, per share data based upon such income, and net income for each full quarter within the two most recent fiscal years and any subsequent interim period for which income statements are presented.

(3) When the data supplied in paragraph (2) of this section vary from the amounts previously reported on the Form 10-Q (17 CFR 249.308a) filed for any quarter, such as would be the case when a pooling of interests occurs or where an error is corrected, reconcile the amounts given with those previously reported describing the reason for the difference.

(4) Describe the effect of any disposals of segments of a business, and

extraordinary, unusual or infrequently occurring items recognized in each full quarter within the two most recent fiscal years and any subsequent interim period for which income statements are presented, as well as the aggregate effect and the nature of year-end or other adjustments which are material to the results of that quarter.

(5) Paragraphs (1) through (4) of this rule shall not apply to a foreign private issuer not required to report quarterly financial information on Form 10-Q;

Provided, however, That a foreign registrant which reports or is required to report interim financial information on Form 6-K shall disclose such data in the manner provided in paragraphs (1) through (4) with respect to the financial information reported on Form 6-K.

(6) If the financial statements to which this information relates have been reported on by an accountant, appropriate professional standards and procedures, as enumerated in the Statements of Auditing Standards issued by the Auditing Standards Board of the American Institute of Certified Public Accountants, shall be followed by the reporting accountant with regard to the data required by this rule.

(b) *Disagreements on accounting and financial disclosure matters.* If, (1) within the twenty-four months prior to the date of the most recent financial statements, a Form 8-K has been filed reporting a change of accountants, (2) included in the Form 8-K there was a reported disagreement on any matter of accounting principles or practices or financial statement disclosure, (3) during the fiscal year in which the change of accountants took place or during the subsequent fiscal year there have been any transactions or events similar to those which involved the reported disagreement, and (4) such transactions or events were material and were accounted for or disclosed in a manner different from that which the former accountants apparently would have concluded was required, state the

existence and nature of the disagreement and also state the effect on the financial statements if the method had been followed which the former accountants apparently would have concluded was required. These disclosures need not be made if the method asserted by the former accountants ceases to be generally accepted because of authoritative standards or interpretations subsequently issued.

PART 240—GENERAL RULES AND REGULATIONS, SECURITIES EXCHANGE ACT OF 1934

46. Part 240 is amended by revising paragraph (b)(3) of § 240.14a-3 to read as follows:

§ 240.14a-3 Information to be furnished to security holders.

(b) * * *

(3) The report shall contain the supplementary financial information specified by Item 12 of Regulation S-K (17 CFR 229.20).

* * *

47. Part 240 is further amended by revising paragraph (a)(3) of § 240.14c-3 to read as follows:

§ 240.14c-3 Annual report to be furnished security holders.

(a) * * *

(3) The report shall contain the supplementary financial information specified by Item 12 of Regulation S-K (17 CFR 229.20).

* * *

PART 249—FORMS, SECURITIES EXCHANGE ACT OF 1934

§ 249.308a [Amended]

48. The following table serves to revise certain cross-references in § 249.308a. The first column identifies the location of the reference, the second column indicates the old reference which is deleted, and the third column indicates the new reference which is to be presented in the place of the old reference.

Location of reference	Old reference	New reference
§ 249.308a Part I Instruction 4(a)(1)	Rule 3-02	Rule 4-02.
§ 249.308a Part I Instruction 4(a)(2)	Rule 3-02	Rule 4-02.
§ 249.308a Part I Instruction 4(a)(3)	Rules 3-08 and 3-16	Rule 4-08.

These amendments are adopted pursuant to authority in Sections 6, 7, 8, 10, and 19(a) (15 U.S.C. 77f, 77g, 77h, 77j, 77s) of the Securities Act of 1933; Sections 12, 13, 15(d), and 23(a) (15

U.S.C. 78l, 78m, 78o(d), 78w) of the Securities Exchange Act of 1934; Sections 5(b), 14, and 20(a) (15 U.S.C. 79e, 79n, 79t) of the Public Utility

Holding Company Act of 1935; Sections 8, 30, 31(c) and 38(a) (15 U.S.C. 80a-8, 80a-29, 80a-30(c), 80a-37(a)) of the Investment Company Act of 1940.

Pursuant to Section 23(a)(2) of the Securities Exchange Act, the Commission has considered the impact of these amendments on competition and is not aware at this time of any burden that they would impose on competition.

By the Commission.

George A. Fitzsimmons,
Secretary.

September 2, 1980.

[FR Doc. 80-27816 Filed 9-19-80; 10:30 am]

BILLING CODE 8010-01-M

17 CFR Parts 210, 231, 239, 240 and 249

[Releases Nos. 33-6234, 34-17117, 35-21700; IC-11326, AS-281]

Uniform Instructions as to Financial Statements—Regulation S-X

AGENCY: Securities and Exchange Commission.

ACTION: Amendment of rules.

SUMMARY: The Commission announces the adoption of amendments to rules establishing uniform instructions governing the periods to be covered by financial statements included in (1) most registration and reporting forms filed with the Commission under the Securities Act of 1933 and Securities Exchange Act of 1934, and (2) annual reports to security holders furnished pursuant to the proxy rules. The amendments specify the periods to be covered by audited financial statements as well as the periods for which unaudited interim financial information is required when securities are being registered. In addition, requirements as to the form and content of interim financial information included in registration statements have been adopted which parallel current requirements of quarterly reports filed on Form 10-Q. The amendments remove substantially all present instructions as to financial statements from the various registration and reporting forms and establish a centralized set of revised instructions in Regulation S-X. The amendments adopted are intended to simplify the registration and reporting requirements under the Federal securities laws and further the ability of registrants to integrate reporting under the 1933 and 1934 Acts.

EFFECTIVE DATE: Effective for companies with fiscal years ended after December 15, 1980. However, upon publication in

the Federal Register, earlier implementation is encouraged.

FOR FURTHER INFORMATION CONTACT: Lawrence C. Best, Office of the Chief Accountant, Securities and Exchange Commission, Washington, D.C. 20549 (202-272-2130).

SUPPLEMENTARY INFORMATION: The Securities and Exchange Commission is adopting amendments to rules establishing uniform instructions as to the periods to be covered by financial statements included in most registration and reporting forms filed with the Commission under the Securities Act of 1933 ("Securities Act") and the Securities Exchange Act of 1934 ("Exchange Act," together the "securities acts") and in annual reports to security holders furnished pursuant to the proxy rules. Further, amendments are being adopted which modify requirements as to the form and content of interim financial information included in registration statements, conforming for most registrants previous requirements under the Securities Act with current requirements for quarterly data under the Exchange Act. The amendments remove substantially all present instructions as to financial statements from the various registration and reporting forms and establish a centralized set of revised instructions in Regulation S-X.

Adoption of the amendments contained in this release result in amendments to Forms S-1 (17 CFR 239.11), S-2 (17 CFR 239.12), S-3 (17 CFR 239.13), S-7 (17 CFR 239.26), S-11 (17 CFR 239.18), 10 (17 CFR 249.210), 10-K (17 CFR 249.310), 11-K (17 CFR 249.311), Rule 14a-3 (17 CFR 240.14a-3), Schedule 14a (17 CFR 240.14a-1 *et seq.*) Rule 14c-3 (17 CFR 240.14c-3), Regulation S-X (17 CFR 210) and Guide 23 (17 CFR 231.4936) under the Securities Act of 1933 or the Securities Exchange Act of 1934.

Background

On January 15, 1980, the Securities and Exchange Commission, in four separate but related releases, introduced a plan to redesign the registration and reporting system under the securities acts.¹ The plan proposed substantial changes to the disclosure system and incorporated revisions designed to improve overall disclosure, simplify existing rules, and reduce the registration and reporting burdens for most registrants. The underlying theme of the plan was the accomplishment of a coordinated disclosure system encompassing integrated reporting

under the Securities Act and the Exchange Act.

The plan envisioned, among other things, the use of what may be referred to as a "uniform financial disclosure package" as the central disclosure mechanism in the integrated disclosure system. This uniform package containing certain minimum disclosures was to appear in the annual report to security holders and be incorporated by reference into the Form 10-K as well as certain Securities Act filings. It was to contain items of disclosure the Commission believed warranted maximum public exposure.

In developing this plan for an integrated disclosure system, the Commission placed a high priority on determining what it believed to be the minimum content necessary for an informed investment decision and undertook to reexamine its financial disclosure requirements in an effort to develop a uniform financial disclosure package. This reexamination involved revisiting requirements for primary audited financial statements, the summary of operations, and management's discussion and analysis of the summary of operations as well as the provisions of Regulation S-X.

The reassessment of these rules resulted in the Commission proposing a redesign of the basic financial disclosure model included in most filings and in annual reports to security holders. Under the proposal, the summary of operations would be eliminated and management's discussion and analysis would be refocused on the primary audited financial statements. In addition, management's discussion and analysis would be expanded to encompass an explanation of factors affecting financial condition and changes in financial condition as well as the results of operations. The primary financial statements, prepared in accordance with Regulation S-X, would include balance sheets as of the end of the two most recent fiscal years and statements of income and changes in financial position for the three most recent fiscal years. Also, the financial disclosure package would include selected financial data and certain market data relating to common shares outstanding.

Final rules evolving from these proposals and the related public comment process are being adopted today in this release and three other concurrent releases. Amendments constituting a major restructuring of Form 10-K and a discussion of the concept of integration adopted by the Commission are included in Securities Act Release No. 6231, September 2, 1980

¹ Securities Act Release Nos. 6176, 6177, 6178 and 6179.

(Amendments to Annual Report Form, Related Forms, Rules and Guides; Integration of Securities Acts Disclosure Systems). Amendments to Regulation S-X constituting a general revision of Articles 3, 5 and 12 aimed at facilitating integration are included in Securities Act Release No. 6233, September 2, 1980 (General Revision—Regulation S-X). Finally, the adoption of a new registration form, Form S-15, representing an experimental optional short form for registration of securities issued in certain business combinations, encompassing integrated disclosure concepts, is the subject of Securities Act Release No. 6232, September 2, 1980 (Business Combination Transactions—New Short Form for Registration and Related Rule Amendments).

The principal focus of this release is the adoption of a uniform requirement for financial statements included in the uniform financial disclosure package referred to above and covered in the amendments adopted in the concurrent release on revision of Form 10-K. In addition, this release establishes certain uniform instructions as to the age, form and content of interim financial information included in registration statements.

All four releases referred to above are related and were developed with the intention of achieving mutual goals and objectives. Consequently, this release should be read in conjunction with the three other concurrent releases in order to fully understand the registration and reporting format adopted by the Commission.

Uniform Requirement for Financial Statements

As registration and reporting requirements have evolved, differences have been created in the rules covering the periods for which financial disclosures are required. These differences have resulted to some extent from a piecemeal approach, covering many years, in developing the disclosure system. Also, these differences have resulted from continuous attempts to tailor disclosure requirements to the particular circumstances surrounding the use of each of the respective forms. Such differences in requirements have contributed to the complexity of the disclosure rules and frequently have been a source of confusion to those attempting to understand filing requirements.

Under present rules, the periods for which financial statements are required to be filed with the Commission vary depending on the particular registration or reporting form being filed. A registrant, for example, filing a

registration statement on Form S-1 under the Securities Act is required to include statements of income and changes in financial position for three years and a balance sheet as of a recent date. A registrant filing a registration statement under the same Act on Form S-7 is required to provide statements of income and changes in financial position for five years and a balance sheet as of a recent date. For registration of securities using Form S-8, a registrant is required to provide the financial statements required to be included in Form 10-K (under the 1934 Act) or in the annual report to security holders consisting of statements of income and changes in financial position for two years plus balance sheets as of the end of the most recent two fiscal years.

The Commission, in connection with its reassessment of the reporting and disclosure requirements, has questioned the necessity for these differences among forms. Common to all investment decisions involving securities is the need for sufficient information to assess the financial health of the underlying issuer. Whether a potential investor is considering investing in a security traded on the open market or in one being registered for the first time, his method of analysis and evaluation is most likely very similar and his basic informational needs the same.

It is difficult, therefore, to draw meaningful distinctions among the various registration and reporting forms to support the need for the financial statements to encompass differing periods of time. Although the nature of securities and the purpose of registration may differ in many respects and thus require certain disclosures tailored to the specific circumstances of the filing, the Commission believes that such varying circumstances do not warrant a variation among forms as to the periods to which primary financial statements relate.

Accordingly, the Commission in conjunction with the adoption of a uniform financial disclosure package, discussed in greater detail in the concurrent release on revision of Form 10-K, is adopting uniform instructions as to periods to be covered by financial statements. These instructions require registrants to, among other things, provide audited statements of income and changes in financial position for three fiscal years and audited balance sheets as of the end of two fiscal years in most disclosure documents prepared under the securities acts. The Commission believes that the adoption of this uniform requirement will improve

overall disclosure and simplify existing rules.

The proposal of uniform instructions as to financial statement periods generated response from a significant number of commentators, most of whom were preparers of financial statements. The commentators generally offered support for the Commission's stated goals and agreed that a uniform requirement should prove to simplify rules and facilitate the move toward integrated reporting. However, the views of commentators varied as to the appropriate periods to be encompassed by such a uniform requirement.

Commentators supportive of the amendments as proposed concurred with the Commission's view that three-year statements of income are necessary to an understanding of changes in results of operations for two years and that selected financial data for five years, in lieu of the more detailed summary of operations, should be sufficient for an assessment of trends. These commentators further indicated that any incremental costs associated with the additional year's statements of income and changes in financial position would not be significant. In addition, support for the amendments was expressed by other commentators who viewed the amendments as striking an appropriate balance within the framework of an integrated reporting system.

Opposition to the amendments as proposed was based on various concerns regarding the addition of a third year's statements of income and changes in financial position in Form 10-K and in annual reports to shareholders. In the view of opposing commentators, the addition of a third year would jeopardize the readability of disclosure documents, especially the annual report to shareholders, by adding to the prolixity of disclosures already provided. They argued that the benefits accruing from the additional year would be marginal and that the proposed selected financial data would provide sufficient disclosure regarding earlier years.

In addition, opposition to the proposal was voiced by commentators arguing that a user, seeking information for the additional year, could refer to previously filed documents for such data. These same commentators suggested that the additional costs and burdens associated with providing the third year's financial statements would be substantial.

In response to concerns regarding the decreased readability of the financial statements and the increased cost of their preparation, the Commission

attempted to project the incremental disclosure involved in requiring the additional year's statements of income and changes in financial position. From this, the Commission observed that the major portion of footnote disclosure in financial statements is balance sheet oriented, and that few, if any, of the notes relate directly to the statement of changes in financial position. Also, where footnote disclosure relates to the income statement, the addition of one year often will require only the inclusion of an additional dollar amount to a note already prepared for the latest two fiscal years.

Incremental disclosure imposed by the requirement for a third year will principally involve only the addition of one column to both the statements of income and changes in financial position and the addition of several lines to any statement of shareholder's equity presented. This degree of added disclosure in the view of the Commission should not have a negative impact on the readability of disclosure documents and should not, in most cases, result in any significant increases in preparatory costs.

In response to comments questioning the benefits accruing from the third year's information and suggesting that such data is already available in previously filed documents, the Commission has reviewed its stated objectives for developing a uniform financial disclosure package. A principal objective of the uniform package is to provide enough data to satisfy the needs of most users desiring to make an informed judgment as to the financial well-being of an underlying issuer. It has been designed with the intention of providing users with easy access to sufficient data for an informed decision while refraining from requiring data in excess of the amount necessary to satisfy most users or data for which the costs of preparation cannot be justified by the benefits.

The decision to require statements of income and changes in financial position for three years is premised on the view that investors should be provided sufficient detail to analyze and understand a company's results of operations for at least the most recent two fiscal years. Since information for the immediately preceding year is needed to understand changes in operations for one year, comparative information for three years is necessary for an understanding of changes in operations for two years.

The view that three years' income statements are necessary to provide an understanding of the results of operations for two fiscal years is not

unique to these amendments. Since 1974 the Commission has required registrants in their annual reports to shareholders to provide management's discussion and analysis of its results of operations for the three most recent fiscal years. With the elimination of the detailed summary of operations, discussed in the concurrent release on revision of Form 10-K, the three-year requirement for financial statements retains the disclosures previously focused on by management's discussion and analysis and provides a more effective disclosure package.

One of the Commission's principal intentions in developing the uniform financial disclosure package was to refocus the concentration of users to the financial statements as a whole. In the past, the results of operations was given greater emphasis than financial condition by separate display in a detailed summary of operations, which, in turn, was the exclusive focus of management's discussion and analysis. The Commission believes that, by eliminating the summary of operations, requiring the financial statements to cover results of operations for three years, and by refocusing management's discussion and analysis on the financial statements, users will concentrate more on the financial statements as a whole and be provided a more effective presentation.

Interim Financial Information—Age, Form and Content

In addition to adopting a uniform requirement for periods to be covered by audited financial statements, substantial changes are being adopted relating to the age, form and content of unaudited interim financial information provided in registration statements. Under present requirements of the various forms, a "90-day" or "six-month" rule must be followed to determine the age of financial information required to be filed. The amendments adopted in this release revise and update these requirements to recognize quarterly reporting requirements under the Exchange Act and ensure that interim data provided in registration statements under the Securities Act is at least as current as the data already filed under the Exchange Act. As to form and content, changes are being adopted which will greatly reduce the burden on registrants required to file interim financial information. The amendments eliminate the requirement to provide complete financial statements and schedules for interim periods and allow interim data to be presented in condensed financial statements in the

same degree of detail as is required under Form 10-Q.

Age of Financial Statements

In general, the amendments adopted today regarding the inclusion of interim financial information in registration statements parallel existing requirements for interim financial data under Form 10-Q. The new rules do not require registrants to provide in registration statements interim financial data any more current than interim data required for most registrants in quarterly reports on Form 10-Q. A discussion of the new rules, which specify the interim data to be included both as of the date of filing and as of the expected effective date of the filing, or proposed mailing date in the case of a proxy statement, and a description of the exceptions to the general rule are set forth below.

Filings Within 90 Days of Year-End

The uniform financial statement requirement adopted in this release requires audited balance sheets as of the end of the two most recent fiscal years and audited statements of income and changes in financial position for each of the most recent three fiscal years. Exceptions to this rule occur under the amendments adopted when filings, other than on Form 10-K or Form 10, are made within 45 days after the end of the registrant's fiscal year and audited financial statements for the most recent fiscal year are not yet available. In these circumstances, the rules provide that the audited balance sheets may be as of the end of the two preceding fiscal years and audited statements of income and changes in financial position may be presented for each of the three fiscal years preceding the most recent audited balance sheet presented. Under these circumstances, however, an additional balance sheet (which may be unaudited) will be required as of an interim date at least as current as the end of the registrant's third fiscal quarter of the most recently completed fiscal year and unaudited statements of income and changes in financial position will be required, on a comparative basis, for the interim period between the date of the most recent audited balance sheet presented and the date of the most recent interim balance sheet being filed.

This same provision for filing interim financial data will be applicable to filings, other than on Form 10-K or Form 10, made after 45 days but within 90 days of the end of the registrant's fiscal year provided the registrant meets certain prescribed conditions.

To this extent, the rules adopted parallel interim reporting requirements

under the 1934 Act. A potential investor of securities already registered and traded in the open market, for instance, wishing to make an investment decision on March 1, may only have available to him for a calendar year company the audited financial statements for the two years preceding the fiscal year most recently completed and unaudited interim data on a condensed basis through the end of the third fiscal quarter of the most recent fiscal year (as filed on Form 10-Q). Under the rules adopted, this same level disclosure will be available to the investor considering an investment in shares being registered on March 1.

However, where a company files a registration statement or plans to become effective with a registration after 45 days but within 90 days of the end of its fiscal year (i.e., February 16 to March 31 for calendar year companies) and does not meet the conditions prescribed by the rules described below, the Commission will require that audited financial statements for the most recently completed fiscal year be included in the registration statement. To avoid the possibility of having to accelerate the preparation and audit of the financial statements for the most recently completed fiscal year, a company filing in the "45 day window" specified above must:

(1) Be a registrant who files annual, quarterly and other reports pursuant to section 13 or 15(d) of the Exchange Act; (2) have filed all reports due; (3) reasonably and in good faith expect income, after taxes but before extraordinary items and cumulative effect of a change in accounting principle, for the most recent fiscal year for which audited financial statements are not yet available; and (4) for at least one of the two immediately preceding fiscal years for which audited financial statements are available, have reported income, after taxes but before extraordinary items and cumulative effect of a change in accounting principle.

In adopting the requirement for certain registrants to provide audited financial statements for the most recent fiscal year when within the "45 day window," the Commission recognizes that for some short period of time these companies may be prevented from going to the market. However, the Commission has concluded that, when a company is either a new registrant or is a registrant with unprofitable operations and is attempting to raise capital in the marketplace during the 45 days before audited financial statements for the most recent fiscal year would otherwise

be required, it is reasonable to delay registration until such financial statements become available. The Commission believes that companies which do not meet the conditions described above will be cognizant of applicable registration requirements and will plan to accelerate the preparation and audit of their financial statements when planning to file or become effective in this 45 day period.

The Commission believes that this exception in the rules is in the best interest of the investing public and will not create any burden on the large majority of registrants. Also, it should be understood that, as in the past, the Commission will offer waivers to the rules where unusual circumstances dictate the need for them.

Filings After 134 Days of Year-End

The amendments also provide for interim financial information in registration statements filed after 134 days subsequent to the end of a registrant's fiscal year—the period after audited financial statements for the most recently completed fiscal year are already required to be filed by most registrants on Form 10-K and on or after the date most registrants are required to have filed interim financial statements for the first fiscal quarter. When a registration statement is filed during this period an additional balance sheet is required as of an interim date within 135 days of the date of filing but as of a date at least as current as the date of the most recent quarterly data filed with the Commission on Form 10-Q. Also, statements of income and changes in financial position are required, on a comparative basis, for the interim period between the date of the most recent audited balance sheet and the date of the most recent interim balance sheet being filed. Here again, the rules adopted parallel the requirements for interim information under the 1934 Act but also provide some flexibility for those registrants who may not be required to file quarterly data on Form 10-Q.²

These new rules for interim financial data in registration statements are being

²For instance, a calendar year company not subject to quarterly reporting requirements under the Exchange Act and therefore not required to file a Form 10-Q may, in a filing on May 30, include interim financial statements as of, say, the end of January or February as opposed to the end of the first fiscal quarter (March 31). For some companies not accustomed to reporting as of an interim date, a requirement for data as of the end of the most recent fiscal quarter imposes a significant burden in preparing a registration statement. Under the amendments adopted, data less current than as of the end of the most recent fiscal quarter will be acceptable as long as it is within the prescribed 135 day period prior to the date of filing.

adopted primarily to update the rules to recognize quarterly reporting requirements under the Exchange Act. The previous six-month rule under Forms S-1, S-7 and S-11 was never updated in recognition of requirements to file interim data on Form 10-Q. Applicable to registrants meeting certain conditions, the six-month rule was originally adopted with Form S-1 prior to the inception of quarterly reporting requirements and was subsequently incorporated into Form S-7 and S-11 without modification.

Currently, reporting companies are required to file unaudited interim financial information on Form 10-Q within 45 days of the end of each of the first three quarters of their fiscal year. Under present registration requirements, a filing could conceivably be filed under the Securities Act with financial information less current than that already filed under the Exchange Act. Under the amendments adopted, financial statements included in a registration statement will be required to be at least as current as any financial statements filed under the Exchange Act. Although the amendments require more current information than would be required under the six-month rule, they do not require most reporting companies to provide information which is any more current than is now required under the Exchange Act.

Age at Effective Date of Filing

In addition to the adoption of the above rules applicable to financial statements as of the filing date of a registration statement, financial statement updating requirements are also being adopted which focus on the age of financial statements at the effective date of a registration statement or the proposed mailing date in the case of a proxy statement. Here again, the rules adopted, except for certain registration statements which are expected to become effective during the "45 day window" referred to in the previous discussion, correspond with the requirements for quarterly data under the 1934 Act on Form 10-Q.

Where financial statements in a filing are as of a date 135 days or more prior to the date the filing is expected to become effective or proposed mailing date in the case of a proxy statement, the rules require the financial statements to be updated with a balance sheet as of an interim date within 135 days and with statements of income and changes in financial position, on a comparative basis, for the interim period between the end of the most recent fiscal year and the date of the interim balance sheet provided.

Two exceptions to this rule have been provided. First, where the registrant meets the four conditions described in the previous section and the anticipated effective date or proposed mailing date in the case of a proxy statement falls after 45 days but within 90 days of the end of the fiscal year, the filing need not be updated with financial statements more current than as of the end of the third fiscal quarter of the most recently completed fiscal year provided audited financial statements for such fiscal year are not available. Second, where the registrant does not meet the prescribed conditions referred to above and the anticipated effective date or proposed mailing date falls after 45 days but within 90 days of the end of the fiscal year, the filing will be required to include the audited financial statements for the most recent fiscal year. Both of these exceptions are consistent with the rules adopted governing financial statements as of the date of filing and have been included for the same reasons described in the previous sections.

In addition, the updating rules include a general provision that, if a filing is made near the end of a fiscal year and the audited financial statements for that fiscal year are not included in the original filing, the filing shall be updated with such audited financial statements if they become available prior to the anticipated effective date, or proposed mailing date in the case of a proxy statement.

As a consequence of adopting these rules for updating financial statements, the amendments in the release include the elimination of the previous "Guide 23" of "Guides for Preparation and Filing registration Statements."³

Views of Commentators

Commentators were generally supportive of the Commission's efforts to conform the requirements for interim data under the Securities Act with those

under the Exchange Act.⁴ However, many commentators felt that greater conformity could and should be adopted. For instance, under the rules as proposed registrants would have been required to include in filings made within 90 days of the most recent fiscal year-end unaudited balance sheets as of a date within 90 days prior to the date of filing if audited financial statements for the fiscal year were not available. Such interim balance sheets would have been accompanied by comparative statements of income and changes in financial position for the interim period between the date of the most recent audited balance sheet and the date of the interim balance sheet provided. Also, under the proposed rules all registrants filing registration statements after 90 days subsequent to the end of the most recent fiscal year could not have availed themselves of the proposed 135 day rule. Unless they could meet certain prescribed conditions a more stringent 90 day rule would have applied.

The Commission considered the views of commentators in reevaluating the rules as proposed and concluded that a higher level of conformity between the Securities Act and the Exchange Act is appropriate. As a consequence, the rules adopted have been revised (as discussed in the previous sections) from those proposed to conform the timing of interim data in registration statements with the timing imposed by quarterly reporting requirements of Form 10-Q under the Exchange Act. Under the rules as adopted, registrants filing registration statements will not be subject to requirements for interim data more stringent than requirements under Form 10-Q. In addition, the 135 day rule has been made applicable to all registrants filing registration statements after 90 days subsequent to the end of the most recent fiscal year.

Form and Content

Presently, the disclosure requirements as to the form and content of interim data under the Securities Act and the Exchange Act are significantly different. Interim or stub period information included in registration statements under the Securities Act is required to be presented in full compliance with Regulation S-X, including complete financial statements and schedules. Where separate financial statements for the parent company only, unconsolidated subsidiaries or any 50

percent or less owned persons are required for annual periods, complete financial statements and schedules for these entities are also required for interim periods. Under the Exchange Act the disclosure required for interim periods is significantly different as to both the degree of detail and the entities for which financial statements are provided. On a Form 10-Q, only condensed financial statements, without schedules, are required for the registrant and its subsidiaries consolidated. In most cases, parent company only financial statements are omitted and only summarized data is provided for significant unconsolidated subsidiaries and 50 percent or less owned persons.

As an additional step toward attaining consistency between the disclosures required under the Securities Act and those required under the Exchange Act, the Commission is adopting amendments which conform the requirements as to form and content of interim financial data under the Securities Act with existing requirements as to form and content under Form 10-Q under the Exchange Act. The rules as adopted eliminate the requirements to include, in registration statements, complete financial statements and schedules for interim periods. Further, the rules eliminate interim period requirements for separate financial statements for separate entities such as parent company only, unconsolidated subsidiaries or 50 percent or less owned persons. The form and content of financial statements for interim periods included in registration statements must only, as a minimum, comply with rules which conform with requirements for such data under Form 10-Q.

The amendments adopted are revised from those proposed to the extent that complete conformity with the form and content provisions under Form 10-Q has been adopted. The rules as adopted are consistent with the Commission's view that disclosure requirements under the Securities Act and those under the Exchange Act should not be materially different.

The election to remove the major differences, as to form and content of interim data, between requirements under the Securities Act and those under the Exchange Act, however, should not be construed as representing a determination by the Commission that separate financial statements of the entities referred to above may not be required for interim periods at some future point in time. As indicated in the release containing the proposed rules, the Commission is presently studying

³The Commission recognizes that many foreign private issuers will have difficulty complying with the provisions adopted in this release. As announced in the concurrent Release 33-6231, the Commission is considering the feasibility of developing an integrated disclosure system for foreign issuers and will consider the development of specific rules concerning the age and content of financial statements for foreign issuers in the context of that project. Until final rules are adopted, however, the staff will consider, as it has in the past, requests for waivers of certain of the requirements of Regulation S-X that may be inappropriate for foreign issuers. In particular, registrants should be aware that waiver requests regarding the age of financial statements in a firm commitment underwritten offering have in the past been granted if the registrant presented financial statements at least as current as six months prior to the effectiveness of the registration statement.

⁴Letters of comment were received from 160 commentators in response to the invitation to comment included in Securities Act Release No. 6179.

the significance and utility of the various separate financial statements currently required by most disclosure forms for annual periods. After the Commission completes its studies of the significance and utility of these separate statements, a determination will then be made as to whether such statements in a condensed form need be included where interim periods are presented (registration statements as well as Form 10-Q).

Instructions to Financial Statements Centralized in Regulation S-X

Instructions as to the financial statements to be provided in a filing and the periods to be covered are presently located in the various registration and reporting forms. The amendments adopted today remove substantially all these instructions from the various forms and position a centralized set of revised instructions in a new Article 3 of Regulation S-X. The Commission believes that the centralization of these instructions simplifies the rules and facilitates the establishment of a uniform requirement for periods to be covered by financial statements.

In relocating the instructions as to financial statements to Regulation S-X, it should be noted that no significant changes have been made other than those relating to the periods to be covered by financial statements and those regarding the form and content of interim data in registration statements. Certain minor changes, however, that should be noted are briefly described below.

Consistent with the adoption of a uniform requirement for registrants to provide statements of income for three fiscal years, a requirement that the disclosure of segment information in accordance with provisions of Statement of Financial Accounting Standards No. 14 for each year for which an audited income statement is presented has been adopted. This specific amendment to the rules is required because generally accepted accounting principles only require segment data when complete financial statements—including balance sheet—are presented. This requirement is also consistent with the number of years provided for by the revised Item 1 of Regulation S-K discussed in the release on revision of Form 10-K. The amendment adopted herein provides that to the extent that the segment information required to be included in the financial statements comply with the provisions of Item 1 of Regulation S-K, the disclosures may be combined by cross referencing to or from the financial statements.

The amendments also revise the present rules applicable to financial statements of development stage companies required to be filed on Form 10-K. Presently, when receipts and expenditures of a development stage company, each, do not exceed \$5,000, the financial statements may be unaudited. The rules adopted would encompass financial statements of any inactive company and would raise the receipts and expenditures levels, each, to \$100,000. This change broadens and updates the present rules.

Further, because Regulation S-X now encompasses requirements for financial statements, its title has been changed from "Form and Content of Financial Statements" to "Form and Content of and Requirements for Financial Statements."

Text of Amended Rules, Forms, and Guides

[Regulation S-X]

1. The Part heading for 17 CFR Part 210 is revised to read as follows:

PART 210—FORM AND CONTENT OF AND REQUIREMENTS FOR FINANCIAL STATEMENTS, SECURITIES ACT OF 1933, SECURITIES EXCHANGE ACT OF 1934, PUBLIC UTILITY HOLDING COMPANY ACT OF 1935, INVESTMENT COMPANY ACT OF 1940, AND ENERGY POLICY AND CONSERVATION ACT OF 1975

2. Paragraph (a) of § 210.1-01 is amended to read as follows:

§ 210.1-01 Application of Regulation S-X (17 CFR Part 210).

(a) This part (together with the Accounting Series Releases (Part 211 of this chapter)) sets forth the form and content of and requirements for financial statements required to be filed as a part of:

(1) Registration statements under the Securities Act of 1933 (Part 239 of this chapter), except as otherwise specifically provided in the forms which are to be used for registration under this Act;

(2) Registration statements under section 12 (Subpart C of Part 249 of this chapter), annual or other reports under sections 13 and 15(d) (Subparts D and E of Part 249 of this Chapter), and proxy and information statements under section 14 of the Securities Exchange Act of 1934 except as otherwise specifically provided in the forms which are to be used for registration and reporting under these sections of this Act;

(3) Registration statements and annual reports filed under the Public Utility

Holding Company Act of 1935 (Part 259 of this chapter) by public utility holding companies registered under such Act; and

(4) Registration statements and annual reports under the Investment Company Act of 1940 (Part 274 of this chapter)).

* * * * *

§§ 210.3A-01 through 210.3A-08 [Redesignated]

3. Sections 210.4-01 through 210.4-08 and the related heading "Consolidated and Combined Financial Statements" are redesignated as §§ 210.3A-01 through 210.3A-08. In addition, a new heading "General Instructions as to Financial Statements" with a three paragraph introduction and new § 210.3-01 through § 210.3-16 (old §§ 210.3-01 through 210.3-18 removed in concurrent release number 33-6233), are added as set forth below:

General Instructions as to Financial Statements

Note.—These instructions specify the balance sheets and statements of income and changes in financial position to be included in disclosure documents prepared in accordance with Regulation S-X. Other portions of Regulation S-X govern the examination, form and content of such financial statements, including the basis of consolidation and the schedules to be filed. The financial statements described below shall be audited unless otherwise indicated.

For filings under the Securities Act of 1933, attention is directed to § 230.411(b) regarding incorporation by reference to financial statements and to section 10(a)(3) of the Act regarding information required in the prospectus.

For filings under the Securities Exchange Act of 1934, attention is directed to § 240.12b-23 regarding incorporation by reference and § 240.12b-36 regarding use of financial statements filed under other acts.

§ 210.3-01 Consolidated balance sheets.

(a) There shall be filed, for the registrant and its subsidiaries consolidated, audited balance sheets as of the end of each of the two most recent fiscal years.

(b) If the filing, other than a filing on Form 10-K or Form 10, is made within 45 days after the end of the registrant's fiscal year and audited financial statements for the most recent fiscal year are not available, the balance sheets may be as of the end of the two preceding fiscal years and the filing shall include an additional balance sheet as of an interim date at least as current as the end of the registrant's third fiscal quarter of the most recently completed fiscal year.

(c) The instruction in paragraph (b) is also applicable to filings, other than on Form 10-K or Form 10, made after 45

days but within 90 days of the end of the registrant's fiscal year: *Provided*, That the following conditions are met:

(1) The registrant files annual, quarterly and other reports pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 and all reports due have been filed;

(2) For the most recent fiscal year for which audited financial statements are not yet available the registrant reasonably and in good faith expects to report income, after taxes but before extraordinary items and cumulative effect of a change in accounting principle; and

(3) For at least one of the two fiscal years immediately preceding the most recent fiscal year the registrant reported income, after taxes but before extraordinary items and cumulative effect of a change in accounting principle.

(d) For filings made after 45 days but within 90 days of the end of the registrant's fiscal year where the conditions set forth in paragraph (c) of this section are not met, the filing must include the audited balance sheets required by paragraph (a) of this section.

(e) For filings made after 134 days subsequent to the end of the registrant's most recent fiscal year the filing shall also include a balance sheet as of an interim date within 135 days of the date of filing.

(f) Any interim balance sheet provided in accordance with the requirements of this section may be unaudited and need not be presented in greater detail than is required by instructions to Form 10-Q. Notwithstanding the requirements of this section, the most recent interim balance sheet included in a filing shall be at least as current as the most recent balance sheet filed with the Commission on Form 10-Q.

§ 210.3-02 Consolidated statements of income and changes in financial position.

(a) There shall be filed, for the registrant and its subsidiaries consolidated, audited statements of income and changes in financial position for each of the three fiscal years preceding the date of the most recent audited balance sheet being filed.

(b) In addition, for any interim period between the latest audited balance sheet and the date of the most recent interim balance sheet being filed, and for the corresponding period of the preceding fiscal year, statements of income and changes in financial position shall be provided. Such interim financial statements may be unaudited and need not be presented in greater

detail than is required by instructions to Form 10-Q.

§ 210.3-03 Balance sheets of the registrant.

There shall be filed for the registrant and its predecessors audited balance sheets as of the same dates as the audited consolidated balance sheets required to be filed pursuant to § 210.3-01.

§ 210.3-04 Statements of income and changes in financial position of the registrant.

There shall be filed for the registrant and its predecessors audited statements of income and changes in financial position for each of the three fiscal years preceding the date of the most recent audited balance sheet being filed.

§ 210.3-05 Omission of registrant's financial statements in certain cases.

(a) Notwithstanding §§ 210.3-03 and 3-04, the individual financial statements of the registrant may be omitted if:

(1) Consolidated financial statements of the registrant and one or more of its subsidiaries are being filed, and
(2) The conditions specified in either paragraphs (a)(2) (i) or (ii) of this section are met.

(i) The registrant is primarily an operating company and all subsidiaries included in the consolidated financial statements being filed, in the aggregate, do not have minority equity interests and/or indebtedness to any person other than the registrant or its consolidated subsidiaries in amounts which together exceed 5 percent of the total assets as shown by the most recent year end consolidated balance sheet. Indebtedness incurred in the ordinary course of business which is not overdue and which matures within one year from the date of its creation, whether evidenced by securities or not, and indebtedness of subsidiaries which is collateralized by the registrant by guarantee, pledge, assignment or otherwise are to be excluded for the purpose of this determination.

(ii) The registrant's total assets, exclusive of investments in and advances to its consolidated subsidiaries, as would be shown by its most recent year-end balance sheet if it were filed, constitute 75 percent or more of the total assets as shown by the most recent year-end consolidated balance sheet; and the registrant's total sales and revenues, exclusive of interest and dividends received from or its equity in the income of the consolidated subsidiaries, as would be shown by its income statement for the most recent fiscal year if it were filed, constitute 75 percent or more of the total sales and

revenues shown by the most recent annual consolidated income statement.

(b) The basis for the omission of registrant's financial statements shall be stated in the index of financial statements filed.

§ 210.3-06 Instructions to income statement requirements.

(a) The statements required shall be prepared in compliance with the applicable requirements of this Regulation.

(b) If the registrant is engaged primarily (1) in the generation, transmission or distribution of electricity, the manufacture, mixing, transmission or distribution of gas, the supplying or distribution of water, or the furnishing of telephone or telegraph service; or (2) in holding securities of companies engaged in such businesses, it may at its option include statements of income and changes in financial position (which may be unaudited) for the twelve-month period ending on the date of the most recent balance sheet being filed, in lieu of the statements of income and changes in financial position for the interim periods specified.

(c) If a period or periods reported on include operations of a business prior to the date of acquisition, or for other reasons differ from reports previously issued for any period, the statements shall be reconciled as to sales or revenues and net income in the statement or in a note thereto with the amounts previously reported: *Provided, however*, That such reconciliations need not be made (1) if they have been made in filings with the Commission in prior years or (2) the financial statements which are being retroactively adjusted have not previously been filed with the Commission or otherwise made public.

(d) In connection with any unaudited statement for an interim period a statement shall be made that all adjustments necessary to a fair statement of the results for such period have been included. If all such adjustments are of a normal recurring nature, a statement to that effect shall be made; otherwise, there shall be furnished information describing in appropriate detail the nature and amount of any adjustments other than normal recurring adjustments entering into the determination of the results shown.

(e) Disclosures regarding business segments required by generally accepted accounting principles (Statement of Financial Accounting Standards No. 14) shall be provided for each year for which an audited statement of income is presented. To the extent that the

segment information presented pursuant to this instruction complies with the provisions of Item 1 of Regulation S-K, the disclosures may be combined by cross referencing to or from the financial statements.

§ 210.3-07 Past successions to other businesses.

(a) If, during the period for which its income statements are required, the registrant has by purchase or pooling of interests succeeded to one or more businesses, the additions, eliminations and other changes effected in the succession shall be appropriately set forth in a note or supporting schedule to the balance sheets being filed, and, if a purchase has been effected during the most recent fiscal year or in a subsequent period, pro forma statements of income reflecting the combined operations of the entities shall be furnished in columnar form for the latest fiscal year and any comparable interim periods. In addition, if any purchased business or businesses, singly or in the aggregate, had major significance in relation to the registrant, audited income statements, separate or combined as appropriate, for such business or businesses shall be filed for such periods prior to the purchase as may be necessary when added to the time, if any, for which audited income statements after the purchase are filed to cover the equivalent of the period specified in § 210.3-02. The test of major significance shall be based on the tests used in the term "significant subsidiary" with substituted percentages (determined in comparison to the most recent annual consolidated financial statements of the registrant being filed) being utilized in relation to the period the businesses have been merged prior to the date of the registrant's most recent audited balance sheet as follows: (1) For one full year or less, no substitution; (2) more than one but less than two full years, 25 percent; and (3) two full years or more, 45 percent. If financial statements for an acquired business would not be required in the year of acquisition, they would not be required subsequently. (See Release No. 33-4950 with regard to audit requirements for such financial statement.)

(b) The instruction in paragraph (a) of this section shall not apply with respect to the registrant's succession to the business of any totally held subsidiary or to the succession of one or more businesses if such businesses, considered in the aggregate, would not meet the test of a significant subsidiary.

(c) Information required by this section is not required to be included in a filing on Form 10-K.

§ 210.3-08 Future successions to other businesses.

(a) If, after the date of the most recent balance sheet filed pursuant to § 210.3-01, the registrant by purchase or by pooling of interests has succeeded to or is about to succeed to one or more businesses or has acquired or is about to acquire an investment in a business the investment in which is required to be accounted for by the equity method, there shall be filed for such businesses financial statements, combined if appropriate, prepared in accordance with Regulation S-X. In addition, to reflect the succession to any businesses, there shall be filed in columnar form: (1) A balance sheet of the registrant (or the registrant and its subsidiaries consolidated, if appropriate), (2) the balance sheets of the constituent businesses, (3) the changes to be effected in the succession, and (4) the pro forma balance sheet of the registrant giving effect to the plan of succession. There shall also be filed in columnar form pro forma statements of income for the periods for which the results of operations of the acquired business would have been included in the registrant's income statement for a pooling of interests or would have been presented on a pro forma basis for a purchase had the succession occurred on the date of the latest balance sheet filed. By a note to the financial statements or otherwise, a brief explanation of the changes shall be given.

(b) The acquisition of securities shall be deemed to be the acquisition of a business if such securities give control of the business or combined with securities already held give such control. In addition, the acquisition of securities which will extend the registrant's control of a business shall be deemed the acquisition of the business if any of the securities being registered hereunder are to be offered in exchange for the securities to be acquired.

(c) No financial statements need be filed, however, for any business acquired or to be acquired or for any business in which an investment acquired or to be acquired is required to be accounted for by the equity method, from a totally held subsidiary. In addition, the statements of any one or more such businesses may be omitted if the businesses, considered in the aggregate would not meet the test of a significant subsidiary; *Provided*, That the statements of any business may not be omitted where any of the securities

being registered are to be offered in exchange for securities representing such business or for assets of such business.

(d) Information required by this section is not required to be included in a filing on Form 10-K.

§ 210.3-09 Financial statements of subsidiaries not consolidated and 50 percent or less owned persons.

(a) Subject to § 210.3A-03 regarding group financial statements and paragraphs (b) and (c) of this section, there shall be filed for each majority-owned subsidiary not consolidated and each 50 percent or less owned person for which the investment is accounted for by the equity method by the registrant or a consolidated subsidiary of the registrant the financial statements which would be required if each such subsidiary or other person were a registrant and were required to file financial statements. Insofar as practicable, these financial statements shall be as of the same dates or for the same periods as those of the registrant.

(b) *Summarized financial information.* Notwithstanding paragraph (a) of this section, summarized information as to assets, liabilities and results of operations may be presented on an individual or group basis in notes to the financial statements for all subsidiaries not consolidated and 50 percent or less owned persons accounted for by the equity method, except such subsidiaries or 50 percent or less owned persons which are individually significant under the tests specified in paragraph (c) of this section.

(c) *Omission of financial statements required by paragraphs (a) and (b).* Notwithstanding paragraphs (a) and (b) of this section, there may be omitted all financial statements of any one or more unconsolidated subsidiaries or 50 percent or less owned persons accounted for by the equity method, if in the aggregate: (1) Neither the registrant's and its other subsidiaries' investments in and advances to, nor their proportionate share of the total assets (after intercompany eliminations) of, such subsidiaries and other persons exceed 10 percent of the total assets as shown by the most recent year-end consolidated balance sheet; (2) the total sales and revenues (after intercompany eliminations) of such subsidiaries or other persons, reduced to the percentages of equity interests held by the registrant and its subsidiaries in such subsidiaries and other persons, do not exceed 10 percent of the total sales and revenues as shown by the most recent annual consolidated income statement; and (3) the registrant's and

its other subsidiaries' equity in the income before income taxes and extraordinary items of the subsidiaries and other persons does not exceed 10 percent of such income of the registrant and consolidated subsidiaries for the most recent fiscal year: *Provided*, That, if such income of the registrant and its consolidated subsidiaries for the last fiscal year is at least 10 percent lower than the average of such income for the last five fiscal years, such average income may be substituted in the determination.

§ 210.3-10 Financial statements of affiliates whose securities collateralize an issue registered or being registered.

(a) For each affiliate of the registrant whose securities constitute a substantial portion of the collateral for any class of securities registered or being registered, there shall be filed the financial statements that would be required if the affiliate were a registrant and required to file financial statements. However, statements need not be filed pursuant to this instruction for any person whose statements are otherwise filed with the registration statement on an individual, consolidated or combined basis.

(b) For the purposes of this instruction, securities of a person shall be deemed to constitute a substantial portion of collateral if the aggregate principal amount, par value, or book value as shown by the books of the registrant, or market value, whichever is the greatest, of such securities equals 20 percent or more of the principal amount of the class secured thereby.

§ 210.3-11 Financial statements of an inactive registrant.

If a registrant is an inactive entity as defined below, the financial statements required by this regulation for purposes of reports pursuant to the Securities Exchange Act of 1934 may be unaudited. An inactive entity is one meeting all of the following conditions:

(a) Gross receipts from all sources for the fiscal year are not in excess of \$100,000;

(b) The registrant has not purchased or sold any of its own stock, granted options therefor, or levied assessments upon outstanding stock;

(c) Expenditures for all purposes for the fiscal year are not in excess of \$100,000;

(d) No material change in the business has occurred during the fiscal year, including any bankruptcy, reorganization, readjustment or succession or any material acquisition or disposition of plants, mines, mining equipment, mine rights or leases; and

(e) No exchange upon which the shares are listed, or governmental authority having jurisdiction, requires the furnishing to it or the publication of audited financial statements.

§ 210.3-12 Age of financial statements at effective date of registration statement or at mailing date of proxy statement.

(a) If the financial statements in a filing are as of a date 135 days or more prior to the date the filing is expected to become effective or proposed mailing date in the case of a proxy statement, the financial statements shall be updated, except as specified in the following paragraphs, with a balance sheet as of an interim date within 135 days and with statements of income and changes in financial position for the interim period between the end of the most recent fiscal year and the date of the interim balance sheet provided and for the corresponding period of the preceding fiscal year. Such interim financial statements may be unaudited and need not be presented in greater detail than is required by instructions to Form 10-Q. Notwithstanding the above requirements, the most recent interim financial statements shall be at least as current as the most recent financial statements filed with the Commission on Form 10-Q.

(b) Where the anticipated effective date of a filing, or in the case of a proxy statement the proposed mailing date, falls within the period after 45 days but within 90 days of the end of the fiscal year and the registrant meets the conditions prescribed under paragraph (c) of § 210.3-01, the filing need not include financial statements more current than as of the end of the third fiscal quarter of the most recently completed fiscal year provided the audited financial statements for such fiscal year are not available. A registrant not meeting the conditions prescribed under paragraph (c) of § 210.3-01 must include in the filing audited financial statements for the most recent fiscal year.

(c) Where a filing is made near the end of a fiscal year and audited financial statements for that fiscal year are not included in the filing, the filing shall be updated with such audited financial statements if they become available prior to the anticipated effective date, or proposed mailing date in the case of a proxy statement.

§ 210.3-13 Filing of other financial statements in certain cases.

The Commission may, upon the informal written request of the registrant, and where consistent with the protection of investors, permit the

omission of one or more of the financial statements herein required or the filing in substitution therefor of appropriate statements of comparable character. The Commission may also by informal written notice require the filing of other financial statements in addition to, or in substitution for, the statements herein required in any case where such statements are necessary or appropriate for an adequate presentation of the financial condition of any person whose financial statements are required, or whose statements are otherwise necessary for the protection of investors.

§ 210.3-14 Special instructions for real estate operations to be acquired.

(a) If, during the period for which income statements are required, the registrant has acquired one or more properties which in the aggregate are significant, or since the date of the latest balance sheet required has acquired or proposes to acquire one or more properties which in the aggregate are significant, the following shall be furnished with respect to such properties:

(1) Audited income statements, for the three most recent fiscal years, which shall exclude items not comparable to the proposed future operation of the property such as mortgage interest, leasehold rental, depreciation, corporate expenses and Federal and state income taxes. Earnings per unit shall not be given in these statements.

(2) If the property is to be operated by the registrant, there shall be furnished a statement showing the estimated taxable operating results of the registrant based on the most recent twelve month period including such adjustments as can be factually supported. If the property is to be acquired subject to a net lease the estimated taxable operating results shall be based on the rent to be paid for the first year of the lease. In either case, the estimated amount of cash to be made available by operations shall be shown. There shall be stated in an introductory paragraph the principal assumptions which have been made in preparing the statements of estimated taxable operating results and cash to be made available by operations.

(3) If appropriate under the circumstances, there shall be given in tabular form for a limited number of years the estimated cash distribution per unit showing the portion thereof reportable as taxable income and the portion representing a return of capital together with an explanation of annual variations, if any. If taxable net income per unit will become greater than the cash available for distribution per unit,

that fact and approximate year of occurrence shall be stated, if significant.

(b) Information required by this section is not required to be included in a filing on Form 10-K.

§ 210.3-15 Special provision as to real estate investment trusts.

(a) In lieu of the income statements required by § 210.5-03 there shall be filed statements of income and expense and statements of realized gain or loss on properties and investments which shall generally conform with the requirements of §§ 210.6-04 and 210.6-05. In place of the balance sheet caption prescribed by § 210.5-02.31(a)(3) there shall be shown separately: (1) The balance of undistributed net income and (2) accumulated net realized gain or loss on investments, and the statements of other stockholders' equity shall generally conform to the requirements of § 210.6-07.

(b) The trust's status as a "real estate investment trust" under applicable provisions of the Internal Revenue Code as amended shall be stated in a note referred to in the appropriate statements. Such note shall also indicate briefly the principal present assumptions on which the trust has relied in making or not making provisions for Federal income taxes.

(c) The tax status of distributions per unit shall be stated (e.g., ordinary income, capital gain, return of capital).

§ 210.3-16 Reorganization of registrant.

(a) If, during the period for which its income statements are required, the registrant has emerged from a reorganization in which substantial changes occurred in its asset, liability, capital shares, other stockholders' equity or reserve accounts, a brief explanation of such changes shall be set forth in a note or supporting schedule to the balance sheets filed.

(b) If the registrant is about to emerge from such a reorganization, there shall be filed, in addition to the balance sheets of the registrant otherwise required, a balance sheet giving effect to the plan of reorganization. These balance sheets shall be set forth in such form, preferably columnar, as will show in related manner the balance sheet of the registrant prior to the reorganization, the changes to be effected in the reorganization and the balance sheet of the registrant after giving effect to the plan of reorganization. By a footnote or otherwise a brief explanation of the changes shall be given.

PART 239—FORMS PRESCRIBED UNDER THE SECURITIES ACT OF 1933

4. Section 239.11, Form S-1, is amended by deleting Instructions as to Financial Statements and revising Item 19 to read as follows:

§ 239.11 Form S-1, registration statement under the Securities Act of 1933.

Item 19. Financial Statements and Supplementary Data

Include in the prospectus the financial statements required by Regulation S-X and the supplementary financial information required by Item 12 of Regulation S-K. Although all schedules required by Regulation S-X are to be included in the registration statement, all such schedules other than those prepared in accordance with Rules 12-15, 12-28 and 12-29 of the Regulation may be omitted from the prospectus.

5. Section 239.12, Form S-2, is amended by revising Item 13 to read as follows:

§ 239.12 Form S-2, for shares of certain corporations in the development stage.

Item 13. Financial Statements and Supplementary Data

Include in the prospectus the financial statements required by Regulation S-X and the supplementary financial information required by Item 12 of Regulation S-K. Although all schedules required by Regulation S-X are to be included in the registration statement, all such schedules may be omitted from the prospectus.

6. Section 239.13, Form S-3, is amended by revising Item 12 to read as follows:

§ 239.13 Form S-3, for shares of mining corporations in the development stage.

Item 12. Financial Statements and Supplementary Data

Include in the prospectus the financial statements required by Regulation S-X and the supplementary financial information required by Item 12 of Regulation S-K. Although all schedules required by Regulation S-X are to be included in the registration statement, all such schedules may be omitted from the prospectus.

7. Section 239.18, Form S-11, is amended by deleting Instructions to Financial Statements and revising Item 24 to read as follows:

§ 239.18 Form S-11, for registration under the Securities Act of 1933 of securities of certain real estate companies.

Item 24. Financial Statements and Supplementary Data

Include in the prospectus the financial statements required by Regulation S-X and

the supplementary financial information required by Item 12 of Regulation S-K. Although all schedules required by Regulation S-X are to be included in the registration statement, all such schedules other than those prepared in accordance with Rules 12-12, 12-28 and 12-29 of the Regulation may be omitted from the prospectus.

8. Section 239.26, Form S-7, is amended by revising Item 11 to read as follows:

§ 239.26 Form S-7, for registration under the Securities Act of 1933 of securities of certain issuers.

Item 11. Financial Statements and Supplementary Data

Include in the prospectus all financial statements required by Regulation S-X and the supplementary financial information required by Item 12 of Regulation S-K. All schedules may be omitted from the registration statement except those prepared in accordance with rules 12-15, 12-28 and 12-29 which shall be included in the prospectus.

PART 249—FORMS, SECURITIES EXCHANGE ACT OF 1934

9. Section 249.210, Form 10, is amended by deleting Instructions to Financial Statements and adding a new Item 17 to read as follows:

§ 249.210 Form 10, general form for registration of securities pursuant to section 12 (b) or (g) of the Securities Exchange Act of 1934.

Item 17. Financial Statements and Supplementary Data

Include in the registration statement all financial statements required by Regulation S-X and the supplementary financial information required by Item 12 of Regulation S-K.

10. Section 249.311, Form 11-K, is amended by revising paragraph (b) of the "Instructions as to Financial Statements" to read as follows:

§ 249.311 Form 11-K, for annual reports of employee stock purchase, savings and similar plans pursuant to section 15(d) of the Securities Exchange Act of 1934.

(b) An audited statement of income and changes in plan equity for each of the latest three fiscal years of the plan (or such lesser period as the plan has been in existence).

PART 240—GENERAL RULES AND REGULATIONS, SECURITIES EXCHANGE ACT OF 1934

11. Section 240.14a-3 is amended by revising paragraphs (b)(1) and (b)(2) to read as set forth below. For revision to

paragraph (b)(3), see concurrent Securities Act Release No. 33-6233.

§ 240.14a-3 Information to be furnished to security holders.

(b) * * *

(1) The report shall include, for the registrant and its subsidiaries consolidated, audited balance sheets as of the end of each of the two most recent fiscal years and audited statements of income and changes in financial position for each of the three most recent fiscal years prepared in accordance with Regulation S-X (Part 210 of this chapter), except that the provisions of Article 3, other than § 210.3-06(e), shall not apply and only substantial compliance with Articles 6, 7, 7A and 9 is required. Any financial statement schedules or exhibits or separate financial statements which may otherwise be required in filings with the Commission may be omitted. Investment companies registered under the Investment Company Act of 1940 need include financial statements only for the last fiscal year. If the financial statements of the registrant and its subsidiaries consolidated in the annual report filed or to be filed with the Commission are not required to be audited, the financial statements required by this paragraph may be unaudited.

Note.—Information required by § 210.4-10(k) (1) through (4) or Regulation S-X, applicable to oil and gas companies, is to be included as part of the financial statements included in the report. In addition, the oil and gas information required by § 210.4-10(k) (5) through (8) of Regulation S-X, which may be reported as supplemental information accompanying the financial statements, shall be included in the report.

(2) Financial statements and notes thereto shall be presented in roman type at least as large and as legible as 10-point modern type. If necessary for convenient presentation, the financial statements may be in roman type as large and as legible as 8-point modern type. All type shall be leaded at least 2 points.

12. Section 240.14a-101 is amended by revising Item 15 of Schedule 14A to read as follows:

§ 240.14a-101 Schedule 14A. Information required in proxy statement.

Item 15. Financial statements and supplementary data

If action is to be taken with respect to any matter specified in Item 12, 13 or 14 above, furnish the financial statements required by Regulations S-X and the supplementary

financial information required by Item 12 of Regulation S-K. One copy of the definitive proxy statement filed with the Commission shall include a manually signed copy of the accountant's certificate.

The financial statements of an acquired company not subject to the reporting provisions of the Exchange Act required to be furnished pursuant to Regulation S-X shall be certified to the extent practicable. However, if the proxy statement is to be included in a filing on Form S-14 and if any of the securities are to be reoffered to the public by any person who is deemed to be an underwriter thereof, within the meaning of Rule 145(c), the financial statements of the acquired business must be certified for three years or must comply with the requirements of Securities Act Release No. 4950.

Notwithstanding the provisions of Regulation S-X, no schedules other than those prepared in accordance with Rules 12-15, 12-28 and 12-29 of that regulation need be furnished in the proxy statement.

Parent company only financial statements are not required to be furnished unless necessary to make the financial statements not misleading.

13. Section 240.14c-3 is amended by revising paragraphs (a)(1) and (a)(2) to read as set forth below. For revision to paragraph (a)(3), see concurrent Securities Act Release No. 33-6233.

§ 240.14c-3 Annual report to be furnished security holders.

(a) * * *

(1) The report shall include, for the registrant and its subsidiaries consolidated, audited balance sheets as of the end of each of the two most recent fiscal years and audited statements of income and changes in financial position for each of the three most recent fiscal years prepared in accordance with Regulations S-X (Part 210 of this chapter), except that the provisions of Article 3, other than § 210.3-06(e), shall not apply and only substantial compliance with Articles 6, 7, 7A and 9 is required. Any financial statement schedules or exhibits or separate financial statements which may otherwise be required in filings with the Commission may be omitted. Investment companies registered under the Investment Company Act of 1940 need include financial statements only for the last fiscal year. If the financial statements of the registrant and its subsidiaries consolidated in the annual report filed or to be filed with the Commission are not required to be audited, the financial statements required by this paragraph may be unaudited.

Note.—Information required by § 210.4-10(k)(1) through (4) of Regulation S-X, applicable to oil and gas companies, is to be included as part of the financial statements included in the report. In addition, the oil and

gas information required by § 210.4-10(k)(5) through (8) of Regulation S-X, which may be reported as supplemental information accompanying the financial statements, shall be included in the report.

(2) Financial statements and notes thereto shall be presented in roman type at least as large and as legible as 10-point modern type. If necessary for convenient presentation, the financial statements may be in roman type as large and as legible as 8-point modern type. All type shall be leaded at least 2 points.

PART 231—INTERPRETATIVE RELEASES RELATING TO THE SECURITIES ACT OF 1933 AND GENERAL RULES AND REGULATIONS THEREUNDER

14. Guide 23, "Current Financial Statements and Related Data," of "Guides for Preparation and Filing of Registration Statements," Release No. 33-4936, is deleted, and the table in Part 231 is amended by adding a citation to this Federal Register page to the entry describing Release No. 33-4936.

These amendments are adopted pursuant to authority in Sections 6, 7, 8, 10 and 19(a) (15 U.S.C. 77f, 77g, 77h, 77j, 77s) of the Securities Act of 1933; Sections 12, 13, 15(d) and 23(a) (15 U.S.C. 78l, 78m, 78o(d), 78w) of the Securities Exchange Act of 1934; Sections 5(b), 14 and 20(a) (145 U.S.C. 79e, 79n, 79t) of the Public Utility Holding Company Act of 1935; and Sections 8, 30, 31(c) and 38(a) (15 U.S.C. 80a-8, 80a-29, 80a-30(c) and 80a-37(a)) of the Investment Company Act of 1940. Pursuant to Section 23(a)(2) of the Securities Exchange Act, the Commission has considered the impact of these amendments on competition and is not aware of any burden that they would impose on competition.

By the Commission,
George A. Fitzsimmons,
Secretary.

September 2, 1980.

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